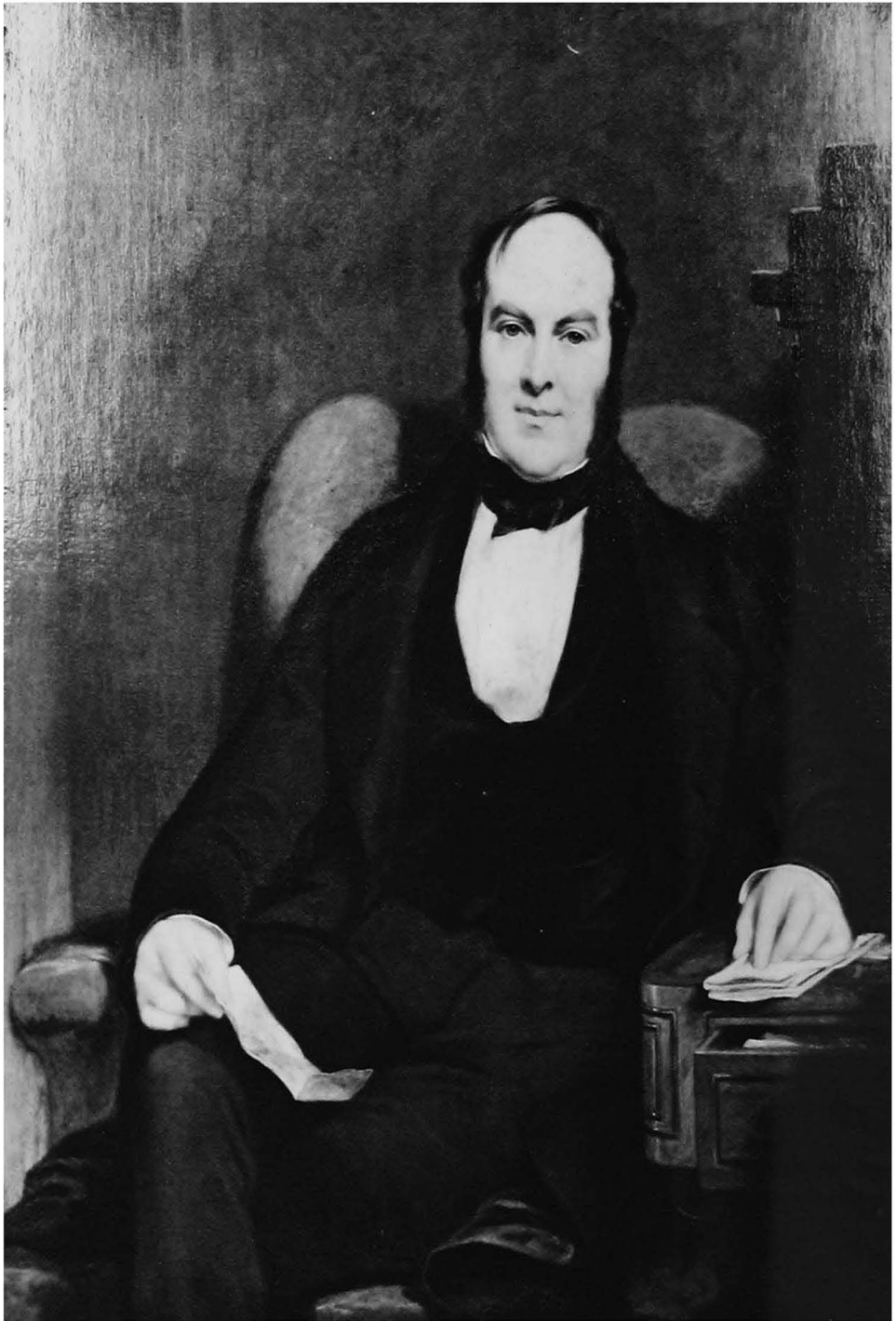


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A HUNDRED YEARS OF  
JOINT STOCK BANKING



CHARLES GEACH

A HUNDRED YEARS OF JOINT  
STOCK BANKING · *by* W. F. Crick  
*and* J. E. Wadsworth · *with a Foreword by*  
The Right Honourable Reginald McKenna

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## FOREWORD

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FOR those of us born in the mid-Victorian era the history related in this book serves as a remarkable record of the profound changes brought about in our lifetime. It extends over a full century—a century of pronounced growth and development in every branch of economic life. While the population of England and Wales has almost doubled, the process of consolidation in commerce and industry has led to an even more remarkable expansion of individual business units. The old family undertaking and the small-scale commercial and industrial firm have been replaced in great measure by the company organization, and companies have in their turn been fused into large combinations which have developed into corporate entities of vast capital resources and scope of operations. The process has found expression throughout the whole field of our business life. When we compare our past and present organization, the contrast in the size and range of our industrial and commercial units is, next to the general improvement in the standard of living, the most important economic feature of the last seventy years.

In no sphere has the process of consolidation been more marked than in that of finance. The immensity of our economic development has been described by numerous historians, but in the book before us one particular example of this development is dealt with in striking detail. The general transformation has been amazing, but nowhere more complete and successful than in banking, with which this book is concerned. It shows that out of almost chaotic conditions there has been evolved an ordered system, firmly grounded on the habits and confidence of the people, and adapting itself to the needs of a progressive economic life.

Seventy years ago there were more than four hundred commercial banks in England and Wales, and probably none of them outside London had deposits of more than five millions; over two hundred

#### FOREWORD

varieties of bank notes, of all shapes, colours and designs, were in circulation along with gold coins and five-shilling pieces; cheques were almost unknown to ordinary private people; bank failures were by no means rare; few of the banks outside London published balance sheets, and auditing in the modern sense was practically non-existent. In the City itself, the Royal Exchange was still the venue of London's elementary foreign exchange market, as well as the scene of lively dealings in commodities, freights and insurance; stock exchange dealings were confined to a relatively short list, mainly of Government and corporation loans, railway securities and bank and insurance company shares; and financial journalism was comparatively undeveloped.

When the work of preparing this book was begun, six years ago, it was not expected that the available material was so plentiful, still less that it contained within itself the data for a sectional study in economic evolution such as the authors have undertaken. In the result they have given us a story which typifies the responsive character of human institutions. Just as the British constitution has shaped itself to fit the special qualities of the British character, so our business organizations have taken the form demanded by the adventurous exploitation of great resources. For such a process to be maintained an efficient, stable and yet flexible banking system is essential. The authors of this book, by study and presentation of a particular example, have shown how this need has been met. In doing so they have used their material wisely; they have not given us a mere recital of the facts in the life of a growing organism, but have produced a picture of structural evolution and improvement of method. I congratulate them on the presentation of a living history, dealing with a branch of our economic activity which, so far as I know, has been nowhere similarly treated.

R. McKENNA

*June 1935.*

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## INTRODUCTION

THE rapid transformation of economic and social conditions in Great Britain during the past century cannot fail to impress anyone who, whether in search of knowledge or recreation, turns his mind back over the one hundred years. Romantic novels like "John Halifax, Gentleman", "The Mill on the Floss" and "Sybil" furnish vivid pictures of particular aspects of the life of those times, but it is in the works of authors like Clapham, the Hammonds and the Webbs that a more complete presentation must be sought of the outstanding facts of economic and social development. Here it is not possible to attempt either; and even if it were the effort would be misplaced. For we are concerned with a special section of economic evolution—that division which comprises simply and solely commercial banking, considered as distinct even from central banking and monetary policy. Yet of all branches of commercial history, that of banking offers perhaps the fullest opportunity for a sectional study, since almost every other form of economic progress is reflected in its operations. Moreover, a marked characteristic of evolution in commercial banking lies in the fact that it constitutes a process of adaptation to changing external conditions. We are here engaged, therefore, not only in exemplifying the progress of banking over the past century, but also in presenting a study of response in structure and method to changing needs. True, the response was delayed and at times distorted by extraneous forces, chiefly in the field of legislation, yet under the ceaseless pressure of economic need the process was inevitable. Its details are related in later chapters; at this stage we have briefly to indicate the general economic background, sketching only those lines and shades which appear to be of governing importance in shaping the growth of commercial banking.

When, during the third decade of the nineteenth century, the first joint stock banks were formed in England, Great Britain was being carried forward on the swift stream of industrial progress. The application of mechanical inventions in a number of manufactures had led, notwithstanding the political disturbances of the times, to the emergence of an immature industrial system,

prompting a rapid and unsymmetrical growth of population. In the thirty years from 1801 the population of England and Wales grew from less than nine millions to nearly fourteen millions. Already the new industrial activity in the north and midlands had thrown up large and busy towns in close proximity to coal-fields. In a few major industries, notably, the manufacture of iron, cotton and worsted, large-scale works and factories had begun to replace the small units of earlier years, but for the rest industry was still conducted by skilled craftsmen working in their own homes or in small mills and workshops, often bound into loose associations through their dependence upon itinerant factors or agents. Nevertheless, the domestic or outwork system was speedily giving place to the aggregation of industrial activity into large units—a necessary consequence of the substitution of mechanical for human power. Agriculture, broadly speaking, had reached its present structure, though concerned far more with arable farming than it is today. The Inclosures Acts had yielded the relatively large farm, and the peasant had become the farm labourer. The work of Telford and Macadam and the enterprise of the turnpike trusts had provided a partial solution of the transport problem, while the canal system was at its highest point of development. It was the heyday of the stage coach and canal barge, and just as they, while representing a vast improvement on pre-existing conditions, were but a passing phase in the evolution of transport methods, so industry, though it had advanced far, was in the main only at the beginning of an amazing expansion.

The greater part of the nineteenth century constituted a formative period, during which industry reaped the benefits of early inventions and grew into its modern shape. Productivity continued to increase in volume and variety, and the factory achieved a complete triumph over the outwork system. Even more important than the rise in the number of mills and factories was the growth of their average size. By 1870 the average number of workers in cotton factories was 177, in woollen mills 70, in worsted 175, in flax 202, and in jute as many as 291. Figures for extractive and heavy industries showed a similar trend: iron manufacture employed an average of 209 persons per unit; while for iron shipbuilding the figure was as high as 570.<sup>(1)</sup> In the course of another generation these averages were again to be considerably

<sup>(1)</sup> J. H. Clapham: *An Economic History of Modern Britain, 1850-1886.*

increased. Further, since the beginning of joint stock banking, new enterprises had sprung up, planned on a larger scale than ever before. The outstanding example is provided by the railways, with their enormous demands upon resources of capital and labour. Later came the vast undertakings formed for the production of steel, mechanical vehicles, chemicals, clothing and the complex products of the twentieth century.

Throughout this period the population continued to increase; from a total for the United Kingdom of 24 millions in 1831 it reached 41 millions in 1901. In 1831 there were only nine towns outside London with a population exceeding 100,000; among them Manchester, with its 271,000 inhabitants, led the way, followed by Liverpool, Dublin, Glasgow, Birmingham and Edinburgh. By 1901 the number of such towns had reached forty-one; Manchester with Salford recorded 905,000, while Glasgow, Birmingham and Liverpool had each exceeded half-a-million. The first English joint stock banks were established in a country where over one-half of the people lived in rural areas, but by 1901 more than three-quarters of the greatly enlarged population was concentrated in towns of more than 20,000 inhabitants.

These fruitful decades of the Victorian era provided the setting for the story told in later pages. As production and population increased, so did the need for currency, credit and remittance facilities, and the system of banking conducted by small private firms proved inadequate to the requirements of industry when it could no longer finance itself. Among the many difficulties with which trade and industry had to contend in the early part of the nineteenth century was that arising from chronic instability in the banking structure. The first step in providing more satisfactory equipment was taken when, in 1826, the law at last permitted banks to be formed in England and Wales on the joint stock basis. The new system was called forth in response to the growing size of the industrial unit, which demanded services and resources that only an undertaking of large proprietary, in a form that promised continuity of existence, could hope to supply. But it was this same general industrial development that provided the basis on which joint stock banking could operate, for the opportunities of profit in the new industrialism yielded a growing corpus of funds for the supply, through the banks, of the enlarged credit requirements.

This, however, was only the beginning of the story. The first joint stock banks, with one or two notable exceptions, were local in origin and local in business. They were little more than a broadened and improved type of private bank, though speaking generally their business was on a larger scale. For the personal reputation of the private banker the new system substituted a list of local shareholders, usually selected as men of some substance, and all jointly and severally liable for the debts of the bank. Already, indeed, the aggregation of large numbers of persons into towns had done much to limit the effectiveness of personal reputation, and its supersession by the new method was inevitable. The unlimited liability which the joint stock system involved did more than secure local confidence; it was effective on a far wider range, since the transactions of the joint stock banks carried the guarantee of all the shareholders, and their names on bills were thus readily acceptable in the London market.<sup>(1)</sup> For a time, then, it was comparatively easy to meet local requirements out of local resources, supplemented, when need arose, by borrowing upon bills, either in London or directly from other country banks. Thus, in spite of a few early examples of branch extension, most of the new joint stock banks remained confined to their towns of origin for many years.

In the last quarter of the century, however, the provincial joint stock banks were faced with difficulties in some respects similar to those which had caused the decline of private banking, for their resources in turn became inadequate to meet the enlarged demands of industry. In an effort to keep abreast of requirements the branch system was rapidly extended, bringing into employment large quantities of hitherto idle funds. Above all, however, the trend in industry provided the principal driving force in the consolidation movement in English banking. The banks began to join together for strength and stability, the process gathering force as the nineteenth century drew to a close, and reaching its zenith in the first two decades of the twentieth!

Yet this coalescence could never have taken place—nor indeed could industrial development itself have advanced so far—without the all-important improvement in methods of transport and communication. It is said that Sir Robert Peel, whose name is closely associated with the early struggles of joint stock banking,

<sup>(1)</sup> See page 279.

took as long to come from Rome to London as Julius Caesar did. In such conditions neither the enormous development and concentration of productive power nor the responsive consolidation of banking facilities could have taken place. A pre-requisite of branch banking on an extensive scale is ready communication, and it was only as railways developed that the beginnings of general banking cohesion could be undertaken. There were no passenger-carrying steam-locomotive railways when the first joint stock banks were established, but by 1900 there were in Great Britain 22,000 miles of line, carrying in that year 1,142 millions of passengers and 424 millions of tons of goods. The rapidity of transport of specie and documents, and the regularity and swiftness of letter posts, which this development permitted, did much to induce the banks to embark upon extension beyond strict local boundaries. Again, in the 'sixties the growth of the telegraph made possible rapid communication and easy contact in emergencies. Thus a widely scattered branch organization at length became generally practicable, though it had been attempted at the very outset by a few of those audacious pioneers, whose vision was not bounded by immediate technical prospects. In short, while banking cohesion was demanded by the advance of industry, it was made possible only by rising proficiency in transport and communication.)

Finally, the change in Britain's economic position and the increasing complexity of industrial and trading methods demanded a larger variety of specialized technique in banking processes. In particular, during the second half of the century the country became more and more deeply involved in international trade, importing larger and larger proportions of food and raw materials in return for finished goods. The local bank could hardly have been expected to cope with the breadth of financial operations which this change necessitated; country banks were compelled to lean ever more heavily on London for expert services, and ultimately were driven into fusion with undertakings well versed in the business of the world's financial centre.

It is against this general background of economic history that we have pursued our "case" study. We have been fortunate in that the bank whose history forms our subject matter has been built, by a process of fusion, on a foundation composed mainly of joint stock banks—a fact which has provided perhaps a richer

fund of material than could be found in any other case. Yet there is sufficient of "private banking" content to permit conclusions as to the factors which led ultimately to its supersession. Again, our case presents almost endless variety of subject matter, ranging from the partnership through the plain joint stock undertaking to an unusual form of chartered company; from the pure "unit" bank to the rudimentary branch system; from the country bank concerned with farming and associated activities to the town institution closely involved in the fortunes of a predominating industry. This variety, however, presented a difficulty, since a comprehensive history of joint stock banking had yet to be written.<sup>(1)</sup> An early task, therefore, was to prepare a brief survey of the outlines of English banking development during the nineteenth century and the legislation by which it was influenced. The first chapter contains this summary, and from it emerges the contrast between the course of banking history in London and the provinces. Happily, the story of the Midland contains excellent examples from both fields.

With the governing concepts of response and coalescence in mind we have chosen to encompass our subject on a geographical, rather than chronological, basis of division, and in pursuing this method we have attempted to depict the steady process of unification, converging finally upon London. It is fitting, then, that the treatment of London banking should follow rather than precede that of provincial development, more especially since the Midland, like all but one of the "Big Five", has its roots in the provinces. The seven chapters dealing with different parts of the country and two relating more particularly to London banking are followed by one in which an attempt is made to summarize the outcome of the process of consolidation. In some ways the reader may find this regional plan difficult, but we have tried to assist him by providing each section with a chart or table containing essential particulars of the banks whose stories are there related. A diagram depicting the whole of the process of amalgamation appears at the end of the book, while the chronology of direct amalgamations is given on page 328. The history of any

<sup>(1)</sup> Most of the works on English banking history published hitherto have been simply house histories or parts of more general works. T. E. Gregory's *Select Statutes, Documents and Reports Relating to British Banking* represents a pioneer exploration of the ground to be covered. The first volume of S. Evelyn Thomas's *The Rise and Growth of Joint Stock Banking* appeared when the manuscript of this book had been completed.

particular bank dealt with can also be traced by means of the alphabetical list of banks in Appendix B, or the special index of banks. The separate treatment of "affiliated" banks in Northern Ireland and Scotland is justified on two grounds: first because these banks retain full independence in operation; and secondly because in the banking sense neither Scotland nor Northern Ireland has become completely assimilated with the English system—each, for example, has its own note issue, Scotland has its own body of law, and the relationship of both systems with London is at least once removed. Finally, we have endeavoured in a few short biographical sketches to depict in realistic personal terms a few men prominently identified with the history of our subject bank. The attempt has been made in recognition of the fact that, when all is said of economic progress in the abstract, it is in essence a matter of human personality meeting every form of obstruction and of challenge to its ingenuity and perseverance and to those higher qualities which distinguish the great from the merely gifted. Economic no less than political or military history is an affair of men rather than things.

The chart of amalgamations will indicate the scope of the ground covered in our inquiry, which has extended over a number of years. More than a hundred banks have contributed, directly or indirectly, to the making of the present "Midland", and the way in which they did so can be traced in Appendix B. A vast amount of material concerning these banks, particularly the early ones and more especially the private banks, has been irretrievably lost. But the quantity remaining is large, though much of it was hidden in obscure resting places, and a great deal was of no value for our purpose. The sorting of material and study of the valuable residuum has been a laborious task, which has brought its reward in the joy of discovery. It is of such raw substance that our study has been constructed—thus where quotations occur within the text they are extracted from the directors' minute books or records of the bank concerned, unless some other source is indicated. But this data had necessarily to be bound together by supplies of external material from a great variety of sources. To have referred specifically to all of them would have filled a half of every page with footnotes, and we have accordingly adopted the general



principle of giving a reference only where a statement clearly calls for supporting evidence or where a special acknowledgment is demanded by courtesy. For the purpose of providing material for further research, the terms of amalgamation have been quoted wherever possible in footnotes, while chapter appendices have been added giving in consistent form the main balance sheet items, so far as they are now available, for the various banks mentioned.

The most difficult part of an author's task is the expression of acknowledgment to those who have helped in the completion of his task. For after all, no such book as this can be the product solely of its author. His debts are scattered far and wide; they are owed to living and dead, named and unnamed. In view of the dilemma this fact presents, we do not attempt to give any comprehensive list of those who, in response to requests for help or through their own published works, have generously assisted us in our efforts. But we are none the less grateful to our helpers—more especially to officials of many public libraries—for their interest and patience in the face of often troublesome inquiries. We cannot forbear, however, to express our indebtedness to the Right Hon. Reginald McKenna and Mr. Frederick Hyde, who have shown throughout the kindest and most helpful interest in our work. But for that interest, inspiration and assistance, which permitted complete freedom to use all the material available for our inquiry, the work would have been impossible, and any merit the result possesses is largely due to their encouragement at every stage. We feel bound, moreover, to acknowledge the help received from many colleagues, including under that term, if we may, officials of the Irish and Scottish banks affiliated to the Midland. Finally, we would acknowledge our deep appreciation of the unfailing patience and long-suffering efficiency of Miss M. E. Morphew, exercised in countless tasks of checking, arrangement and presentation.

*June* 1935

W. F. C.

J. E. W.

## CHAPTER I

### THE BACKGROUND: ENGLISH BANKING HISTORY IN MODERN TIMES

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Until 1826 there were no banks in England or Wales with more than six partners, other than the Bank of England, and that had only one office. In 1826 the law permitted joint stock banks to be established, though it was not until 1834 that they were first formed in London. Thereafter the joint stock system rapidly superseded the hundreds of small private banks in existence throughout the country; but most of the new joint stock banks were local in business and without extensive branch systems. Gradually branches were spread out and the joint stock banks joined together, so that the early years of the twentieth century witnessed the emergence of the country-wide bank and the coalescence of the system into a few very large institutions.

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THE history of banking in England until recent years is largely concerned with an effort to keep abreast of rapid economic progress, a task made all the harder by misguided legislation. In banking the old system of monopoly under Government patronage, which dominated the commercial world in the reign of Elizabeth, took stronger and more lasting hold than in trade, and competitive enterprise was forced into channels that could not but lead to periodic disaster. Not until the third decade of the nineteenth century did the long struggle bring a partial escape from the fetters of law, and even after that time the development of banking in England was hesitant and slow and interrupted by setbacks many of which need never have occurred. It is curious that Adam Smith, for all his general condemnation of the system of monopoly in economic affairs, appears to have overlooked the evils, and indeed to have praised the none too evident merits, of one of the most flagrant and damaging of all monopolies then in force—for by the time that the "Wealth of Nations" appeared the Bank of England had enjoyed three-quarters of a century of exclusive privilege. In another respect, however, Adam Smith saw deeper than his contemporaries; for reasons which differ in some ways from those which led him to his conclusion, it has proved none the less true that banking was and is of all branches of business

one of those best suited to joint stock organization. The emergence and general adoption of the joint stock form is an essential condition of a banking system possessing the quality of stability based upon diversification of risks, along with the capacity to expand in support of advancing trade and industry. So long as the condition was absent, as it was until well on in the nineteenth century, stability was unattainable and healthy growth impossible, and the efficiency of the banking system was bound to lag behind the progress achieved in the organization of production and distribution.

For a hundred years and more the "Governor and Company of the Bank of England", a favourite of needy governments, had been protected by a closely guarded monopoly.<sup>(1)</sup> Its original charter, granted by William and Mary in 1694, had been re-enacted time and again on terms which preserved to the company the sole right to joint stock organization in English banking. There was at that time no true joint stock organization in the modern sense of a body operating under a special branch of law. When it was desired to pool capital from numerous subscribers in a common venture the only means of doing so with safety and convenience was to obtain a special charter from the Crown. In industry and trade the usual commercial unit was an individual or a small partnership, with members more often than not drawn from one family. Gradually, however, as undertakings grew larger and called for more extensive capital funds, partnerships tended to increase the number of their members, embodying the terms of their association in a deed of co-partnership, issuing share capital, and becoming "common law companies". Large firms of this description were sometimes called "joint-stocks", but they possessed no corporate entities, and the members were individually liable for all debts of the firm. Nevertheless, such associations, though prohibited for more than a century by the Bubble Act of 1719, in fact continued to increase in strength and numbers, forming the direct predecessors of the modern trading company. In English banking both these roads to development were closed, for Parliament had seen fit to provide,<sup>(2)</sup>

"that during the continuance of the said corporation of the governor and company of the Bank of England it shall not be

<sup>(1)</sup> The history of the Bank is told in convenient form for the general reader by A. Andreadès: *History of the Bank of England*.

<sup>(2)</sup> Bank Charter Act of 1708, which extended and confirmed earlier privileges and was itself confirmed by later re-enactments.

lawful for any body politick or corporate whatsoever erected or to be erected (other than the said governor and company of the Bank of England) or for any other persons whatsoever united or to be united in covenants or partnership exceeding the number of six persons in that part of Great Britain called England<sup>(1)</sup> to borrow owe or take up any sum or sums of money on their bills or notes payable at demand or at any less time than six months from the borrowing thereof”.

Right through the eighteenth and a large part of the nineteenth centuries the business of note issue was the staple of banking throughout the provinces. Hence the law fulfilled the intention, expressed still more clearly in the Bank Act of 1742 by the phrase “the privilege . . . of exclusive banking,” of preventing the foundation of joint stock banks in England. Until the second quarter of the nineteenth century there was no other bank in England or Wales with more than six partners, the whole country having been covered with a medley of banking firms, depending on the chances of family vitality, and ranging from wealthy partnerships to puny one-man enterprises with often undeserved reputations for probity and abundance of resources.

By the beginning of the nineteenth century there were banking firms in England which could claim a history extending over two hundred years, and oldest of them all were the London private bankers. Some of these, originating in families already specialized in finance, were firmly established long before the first provincial bankers made their appearance, and pre-dated even the Bank of England by nearly a hundred years. As early as the second half of the seventeenth century the business of a number of scribes and goldsmiths ranged over current and deposit accounts, advances and the discount of bills of exchange and government orders, and included dealing in bullion and foreign moneys. The goldsmiths were quick to adopt credit instruments, and introduced into England the cheque and the bank promissory note. An early list<sup>(2)</sup> of such goldsmith-bankers records that there were forty-four in London in 1677.

The advent of the Bank of England did not bring an end to the trade of the firmly entrenched goldsmith-bankers, who, since they

<sup>(1)</sup> By an Act of 1746-7 it was declared that reference to England should be “deemed and taken to comprehend and include the Dominion of Wales”.

<sup>(2)</sup> The Little London Directory, 1677, as quoted by F. G. Hilton-Price: *Handbook of London Bankers* (1876). A detailed study of this period of English banking is contained in *The Early History of Banking in England*, by R. D. Richards.

carried on business, generally speaking, in partnerships of few members, were not directly affected by the monopoly provisions. At first the new company was bitterly opposed, though in time hostility died away. But one of the early consequences of the new competition was that the note issues of the London private bankers were driven out of circulation by notes of the Bank. The loss of this source of revenue stimulated a more general use of cheques, and about 1770 the private bankers established for their joint convenience the London Clearing House. As time went on the private bankers came to deposit spare balances with the Bank of England, regarding them as ultimate reserves in case of need. Moreover, when in need of assistance they applied to the Bank, not as competitors but as ordinary customers, for accommodation to tide them over a period of particular or general stringency. Some of these London bankers had become powerful financial units whose business carried their names to the principal trading centres of the continent and the "new world"; yet it was inevitable that the Bank should become the dominant constituent of "the City", possessing a strength and influence which increased with the march of the decades.

The London bankers, largely because of difficulties of communication and transport, made no effort to extend into the provinces; even had these difficulties been removed there would still have remained the deterrent effect of the limitation on the size of partnerships. The Bank of England, moreover, took no steps to fill the breach by opening branches, even when the coaching road had solved in part the transport problem. The second half of the eighteenth century witnessed a rapid expansion of industrial activity in the north and the midlands which created large towns in factory areas and in the neighbourhood of coal-fields. In the absence of enterprise from London, the provision of urgently needed currency and banking facilities could be undertaken only on the basis of the limited financial and personal resources of separate localities.

It was thus partly an accident of complacent monopoly that the country banker became a familiar figure in most English towns. Unlike his London predecessor, the typical country banker came to the business as an amateur in finance. To a flourishing trade as draper, brewer, merchant or manufacturer would be added the task of transmission of funds and dealing in local bills of exchange. In

course of time his newly developed functions would give him a prestige enabling him to issue notes—and sometimes even token coin<sup>(1)</sup>—in his own name and establishing him as a custodian of spare funds. The final stage would be a complete severance of the two businesses, leaving for the one part a banking firm freed from direct connection with trade. Again, difficulties of transport and remittance frequently threw the task of transferring money upon the shoulders of those whose business took them to London and other large towns, or those engaged in the traffic of market towns and fairs. Thus it came about that cattle drovers of Wales, wool broggers of Yorkshire and corn bodgers of provincial England developed into bankers. Encouraged by the rising tide of business activity and the urgent demand for currency, the number of provincial bankers rapidly multiplied. It has been estimated that there were no more than twelve country bankers in 1750, but by 1797 the number reached 230<sup>(2)</sup> and only thirteen years later a total of 721 firms was recorded in the report of the Select Committee on the High Price of Bullion.

The country banker, generally speaking, was for a number of reasons a constant source of weakness in a flimsy, ill-balanced banking structure. Too often the capital employed in banking firms was dangerously small; it could hardly be otherwise when the maximum number of partners was limited by law to six and in practice reached this number infrequently. The mixing of banking with other trades, moreover, involved divided interest and unsound methods, while the confused state of the national currency encouraged note issues out of all proportion to the resources of those upon whose names the holders relied. Although after 1808 it was necessary to obtain a licence in order to issue notes, there was no regulation whatsoever as to the quantity which might be circulated, and, perhaps worse still, there was no central control over the exercise of issue powers. Anyone who was prepared to pay the annual licence fee of £30 and the stamp duty on notes was free to issue as many as he could induce the public to take, though the denomination was not permitted to be less than one pound. Moreover, in the allocation of the country banker's assets there was little or no possibility of spreading risks, and the fortune of many a

<sup>(1)</sup> The issue of token coin by tradesmen, manufacturers, country banks, etc., was finally prohibited by statute in 1812.

<sup>(2)</sup> Evidence of George Ellison, secretary to an early Association of Country Bankers, before the Committee of 1797.

country bank was bound up in the success or failure of one or two large firms. "Runs" upon banks were common occurrences, often for good cause, while the absence of published accounts and the credulity of a financially uneducated public subjected even the best of the banks to unmerited risks arising from the least breath of suspicion. Primitive means of communication and inadequate cash reserve arrangements added to the vulnerability of all banks alike, and this weakness was intensified by lack of contact between them. At the best of times failures were distressingly numerous, and in periods of strain the country banks collapsed in such numbers as to entail grave disorder and to undermine confidence over and over again.

It will be seen that at this stage of banking development London was sharply differentiated from the provinces, though there was already an important point of contact between the two. The cash reserves held by the country banks against their notes and other liabilities were usually very small indeed, but most of them maintained accounts with one or other of the London private banks. The London agent, as he was called, performed a variety of services for the country banker. Bills and documents were collected and payments made; drafts, post bills<sup>(1)</sup> and letters of credit were drawn upon the London banker, and bills of exchange were domiciled at his office. Such foreign and investment business as there was went through his hands. It was, moreover, a growing practice, especially in the south, to make country bank notes payable at the office of the London agent as well as at their own source. Most important of all, the London account gradually became a form of final reserve. If a surplus accumulated it was invested in bills or securities; on the other hand, accommodation might be sought to meet seasonal needs or emergencies, usually by re-discount of bills. Thus when the nineteenth century opened London had already become a channel through which banking funds could flow from a centre with surplus moneys to an area where they could be profitably employed. Bills of exchange were the principal means of business payments—cheques

<sup>(1)</sup> These were bills drawn by a country banker on his London agent, usually at seven or ten days after sight, but sometimes on demand. They were issued in exchange for cash to anyone wishing to remit money, and were made payable at the direction of the purchaser. During the greater part of the nineteenth century they were a very popular form of remittance, particularly among commercial travellers, but eventually the general use of cheques and changes in business habits brought about their disappearance.

were almost unknown outside London—and served at the same time as a profitable instrument of short-term investment. The Lancashire banks, for example, made a practice of sending large parcels of bills to London, whence they were forwarded to Norfolk and Suffolk banks for discount,<sup>(1)</sup> mainly through the medium of the newly-evolved bill-broker. Even so, contact between London and the provinces was at best perfunctory; some of the small country banks had no London accounts at all, while there was no systematic attempt to maintain any regular relationship between London assets, together with cash holdings, and local liabilities. London, though, it was the ultimate depository of the country's gold reserves, was in no true sense the centre of a banking system, exercising general control over the quantity of money and the cost of credit. Except in times of stringency the Bank of England, as banker to the government, was still a privileged competitor rather than the paternal regulating institution, at the centre of a composite organism, which it was later to become. This indeed was a position to be fully achieved only after another hundred years of development.

Early in the nineteenth century, then, English banking revealed grave lack of system, painfully demonstrated by frequent lapses into confusion, and there can be little doubt that the uninterrupted monopoly enjoyed by the Bank of England was largely responsible for this persistent weakness. The troubles attendant upon the Napoleonic wars shattered the framework of "unit banking". Numerous failures occurred about the time of Waterloo, and the experience was repeated ten years later, when an acute crisis developed into panic and brought down ninety-three banks.<sup>(2)</sup> The distress occasioned by these events gave rise to a public demand for drastic change. Early in the century the remnants of old monopolies still held by the great trading companies had been swept away, and a generation feeding upon the principles of *laissez-faire* had little patience with privileged restriction. It was not long before controversy centred upon the exclusive privileges vested in the Bank of England. Foremost in the campaign for reform was Thomas Joplin,<sup>(3)</sup> a Newcastle timber merchant, who,

<sup>(1)</sup> Evidence of Thomas Richardson before the Bullion Committee, 1810.

<sup>(2)</sup> Select Committee on the Bank Act, 1857, Appendix 21.

<sup>(3)</sup> Some details of Joplin's life are given in Maberley Phillips: *A History of Banks and Banking in Northumberland, Durham and North Yorkshire* (1894), page 104.



having witnessed many banking tragedies in his own neighbourhood, had been led to make a study of currency problems. In so doing it was natural that he should draw upon the less turbulent experience of the Scottish banking system. His pamphlets of 1822 and subsequent agitation all pressed for a relaxation of the monopoly of the Bank of England, and offered a new interpretation of its charter which threw doubt upon the presumed exclusiveness of the monopoly clauses. In Parliament the powerful speeches of Ricardo influenced Lord Liverpool's administration in favour of reform, and in 1822 a liberatory measure was announced, only to be withdrawn in face of fierce opposition by established forces. But the events of 1825-6 ensured a far more sympathetic hearing for Joplin's arguments, and at long last came relaxation of the bonds which had so gravely hampered the development of banking in England.

In May 1826 an "Act for the better regulation of Co-partnerships of certain Bankers in England" (7 Geo. IV, c. 46) became law. It permitted the establishment of banking co-partnerships, with a right of note issue and any number of shareholders, outside a radius of sixty-five miles<sup>(1)</sup> from London. The shareholders were to remain liable jointly and severally for debts of the co-partnership, but proceedings were to be taken by or made against two or more members appointed as "public officers", and judgments against such officers were to operate against all the partners. The new banks were not permitted to open offices within the proscribed area, nor were they allowed to draw bills on their London agents payable on demand or for less than £50 in amount. No provision was made as to share denominations or amounts to be paid up on shares; no regulation was placed upon note issues; and no attempt was made to lay down directions regarding the deeds<sup>(2)</sup> under which the co-partnerships were to operate. Outside the sixty-five miles radius the joint stock form was thus to be permitted with a degree of freedom limited only by the restrictions on business with London.

<sup>(1)</sup> This was the English equivalent of fifty Irish miles set as a limit in the earlier Irish Bank Act, see chapter XII. Within the radius were to be found five million people out of a total population of 36 millions in England and Wales. Peterborough, Northampton, Banbury and Southampton were all just outside the area, which covered the whole of the country east of the arc thus described.

<sup>(2)</sup> These deeds of settlement, or deeds of co-partnership, which were drawn up separately for each company, constituted the contract between the co-partners, or shareholders. They also contained provisions governing the conduct of the company's business. Roughly speaking, they combined in one document what is now included, under company law, in the memorandum and articles of association.

It is doubtful whether this step, which represented so great a gain to the banking system as a whole, involved any comparable loss to the former holder of country-wide privilege. The Bank of England had always conducted a purely London business, with no direct interest in the provinces. The radius of sixty-five miles more than covered the area in which its notes were at all widely used, and within the metropolitan area a complete monopoly of joint stock banking was believed to be firmly held, although approximately one hundred private firms still issued notes within the circle. Further, the Act which gave freedom to provincial banking offered something in return to the Bank of England, though it is probable that the "new" extension of powers had been latent in existing charters from early days. By a clause inserted in the Act, "to prevent any doubts that might arise", the Bank was specifically permitted to open branches anywhere in England. This made it in effect the sole corporation empowered to unite under one head a London and country banking business, including the issue of notes, and equipped it to carry privileged competition to the very doors of any new joint stock banks. The Bank of England immediately began to open branches,<sup>(1)</sup> and the threat which was thought to lie in this expansion, coupled with the anticipated opposition of established country bankers, deterred enterprise in the establishment of joint stock banks, although most of the big towns—certainly nearly all those of major importance in industry—were outside the monopoly area. The first true<sup>(2)</sup> joint stock bank in the provinces was opened at Lancaster in 1826; others followed shortly at Norwich, Huddersfield, Bradford, Workington, Manchester, Whitehaven, Leicester, Birmingham, Halifax and Liverpool. Thomas Joplin was an active participant in the formation of several of these. Once it had been demonstrated that such institutions could meet existing competition, the number of formations rapidly increased. By the close of 1833 there were nearly fifty joint stock banks in England, with proprietors numbering about 10,000, and three years later the total

<sup>(1)</sup> The first were opened as follows:—Gloucester, Manchester, Swansea in 1826; Birmingham, Liverpool, Bristol, Leeds, Exeter (afterwards removed to Plymouth) in 1827; Newcastle in 1828; Hull and Norwich in 1829 and Plymouth and Portsmouth in 1834.—Secret Committee on Joint Stock Banks, 1838, Appendix I.

<sup>(2)</sup> The number of provincial branches still open is eight.

<sup>(3)</sup> The first was actually a transformation of Stuckey's bank, in Somerset, but this had only 39 co-partners, and was in fact better described as a more convenient form of the old private bank.

grew to exceed one hundred.<sup>(1)</sup> Most of them issued their own notes and conducted business in much the same way as the private banks. Relations between the two groups were at first far from friendly; the private bankers in London and country alike were disposed to look with suspicion upon the rapidly multiplying upstarts. But the strongest hostility came from the old privileged company, and many years elapsed before the Bank of England ceased to regard note-issuing competitors as enemies and to exercise a form of tyranny in its relations with them.

The conflict between the various elements in the banking structure was soon to be complicated by the intrusion of another class of competitor. In 1832 there were still no joint stock banks in London, for the terms of the Bank of England's charter were assumed to prohibit them. It was Joplin, again, who performed a noteworthy service to the business world by carefully re-reading the Bank charters and giving it as his opinion that banking co-partnerships might be set up even in London so long as they did not issue notes, an important conclusion since the absence of note issue was characteristic of London private banking. This novel interpretation of the terms of the Bank of England's monopoly did not at first attract much attention, but the success of joint stock banking in the provinces brought it to the forefront. The Bank of England, thoroughly alarmed at the discovery of the loose joint in its armour, made an unsuccessful endeavour to repair the weakness and establish a complete monopoly. Meanwhile, however, Joplin's view had been confirmed by high legal opinion, and the Government, in an access of new-found radicalism, favoured a further curtailment of privilege. Accordingly, when the Bank's charter again came up for renewal, in 1833, a special declaratory clause was inserted in the Act to establish Joplin's contention.<sup>(2)</sup>

The clause, even if it was not new law, heralded a momentous change in London banking. Almost immediately, in 1834, a joint stock bank was founded in London, and by 1844 there were five of them, while already they had attained considerable importance, notwithstanding that from the very first they were in open conflict with the entrenched forces of the strong private bankers and the

<sup>(1)</sup> An account of the number of private and joint stock banks registered in each year from 1820-40, both inclusive.—Parliamentary papers, 1843, vol. 52.

<sup>(2)</sup> The Act also declared notes of the Bank of England to be legal tender, except by the Bank, and exempted the Bank from the full operation of the usury laws by permitting it to charge more than five per cent for bills with not less than ninety days to run before due date. In amendment of the Act of 1826, joint stock banks were given the right to make their notes payable in London.

Bank of England.<sup>(1)</sup> It was found easy to embarrass co-partnerships by resort to the deficiencies in the laws under which they operated. This weakness applied particularly to the London joint stock banks, which lacked even the slight protection accorded to country co-partnerships under the Act of 1826. As common law co-partnerships, without the right accorded to country joint stock banks to act through "public officers", they could not maintain a legal action for the smallest sum without quoting the name of each and every "shareholder", and errors on the list would render the claim void. The number of shareholders ran into hundreds, and the technical difficulties alone may be imagined; yet, despite earlier efforts, the handicap was not removed until 1844, and the new banks were at first obliged to make all contracts in the names of trustees. Again, by common law a man could not sue himself, and thus, if two banking co-partnerships, whether in London or the provinces, possessed one or more members in common (a position more likely to arise in London banking) they could not go to law against each other; moreover, a co-partnership could not sue one of its members, nor could a member take legal action against the bank. The collapse of the Northern and Central Bank in 1837 left the liquidator with an almost impossible task arising from these anomalies,<sup>(2)</sup> and they were remedied by amending legislation in 1838 and 1840. Even then the partnership problem was far from being solved, for it was discovered that all joint stock organizations which contained members of the clergy as partners were illegal, on the ground that spiritual persons could not take part in any trading concern.<sup>(3)</sup> On this test alone very many joint stock banks were wrongfully constituted and liable to dissolution until the position was regularized by legislative repeal in 1841.

Constitutional matters, however, were by no means the only ground of dispute. For years a stern struggle was carried on regarding the acceptance of bills by the London joint stock banks, since the monopoly clause in the Bank of England's charter, narrowly interpreted, prohibited them from accepting bills at less than six months after date. The new co-partnerships sought by every possible means to escape from this crippling disability, but

<sup>(1)</sup> See chapter IX.

<sup>(2)</sup> Evidence of William Seddon, solicitor of the Northern and Central Bank, before the Secret Committee on Joint Stock Banks, 1838.

<sup>(3)</sup> The Act making it unlawful for spiritual persons to become members of commercial undertakings was passed in 1817 (57 Geo. III, c. 99).

not until 1844 was the position rectified.<sup>(1)</sup> This discrimination in favour of private bankers was carried still further in day-to-day business, for during a brief period in the late 'thirties the Bank of England refused to discount or deal with bills bearing the name of London joint stock banks in any capacity whatsoever.<sup>(11)</sup>

In the face of all this it is not surprising that only five joint stock banks were formed in London before 1844. On the contrary, the fact that these were uniformly successful, in spite of unremitting hostility and legal disabilities, calls for explanation. First, the large proprietaries, headed by influential directorates, all fully liable for the debts of the banks, inspired public confidence. And secondly, the joint stock banks found it easy, without overstepping the limits of prudence, to offer their clients more favourable terms than were customary among their established competitors. The restoration of old benefits and creation of new ones by the joint stock banks undoubtedly attracted business away from the private bankers, and added fuel to the fire of opposition, though it is probably true to say that the greater part of their business was drawn from new sources hitherto untapped by the old banks. Then, too, the London joint stock banks undertook an innovation by printing and circulating annual statements of accounts. Although, therefore, in early years the London joint stock banks were debarred from note issue, from membership of the Clearing House and from acceptance business, yet they managed to establish a strong basis for growing popularity with the public.<sup>(111)</sup>

Meanwhile, joint stock banking in the provinces was advancing rapidly. The welcome given by industrial towns to the new establishments was echoed in other areas, and many new banks were formed, often under the stimulus of an appeal to local patriotism. It was in the provinces, indeed, thanks to the more favourable conditions of joint stock banking, that the most sweeping successes were achieved. The opportunities presented by the development of industry and trade were multiplied by reason of the weakness and failures of private bankers. Many of these sold their businesses to the new joint stock banks; others retired from

<sup>(1)</sup> See chapter IX.

<sup>(11)</sup> Burgess' Circular to Bankers, 1835, page 97; subsequently the regulation of the Bank of England was altered to a refusal to discount the bills of any bank of issue, whether joint stock or private.—Evidence of Gilbert before Select Committee on Banks of Issue, 1841 (Second report).

<sup>(111)</sup> The history of joint stock banking in London is told in greater detail in chapters IX & X.

the field, leaving gaps which the companies were not slow to fill. Between 1825-6 and 1841-2 the number of private banks in England fell from 554 to 311, but by the end of the period 118 country joint stock banks were in operation. In 1836 a Committee was appointed to inquire into the operation of the Act of 1826, but, like an earlier Committee for the same purpose, its labours resulted in no substantial changes. It is not to be assumed from this that provincial joint stock banking was free from defects, nor yet entirely unscathed by failures. As the Committee observed, too frequently a wide and misleading disparity existed between the denomination of shares and the amount subscribed ; the paid-up capital was sometimes inadequate, and additional resources were obtained by a dangerous extension of re-discounting ; deeds of settlement were often loosely drawn, giving excessive powers to the directors and management. For some years after 1826 no joint stock bank failures occurred, but in the turbulent period around 1836, when the number of provincial joint stock banks doubled in a single year, several of the hastily and precariously founded companies collapsed. It was as true of the joint stock system as of private banking that good bankers made good banks.

On the whole, however, the record of swift progress was favourable, and the new banks showed signs of providing a more stable system than the old. Further, they were rapidly making up leeway in relation to the advancing needs of industry and trade. Although most of the banks confined their operations to one town and its immediate neighbourhood, branch banking had made a beginning. This type of development had been impracticable for the private bankers, with one or two notable exceptions, mainly because of the restrictions on the number of members and consequent slenderness of resources. Some of the joint stock banks, with their eyes on the Scottish model, at once began to operate branches, and a few were shortly in possession of quite considerable systems. Joplin had clearly foreshadowed the possibilities of branch banking, and the popularity of such words as " County " and " District " in the titles of new joint stock banks indicated the intention of reaching beyond the boundaries of their native towns. But there were many difficulties to be overcome. Regular communication was maintained only between large towns, and even then was too slow to meet possible needs ; systems of accounting

were elementary, and, most serious of all, there was a shortage of trained men competent to act as managers. The enforced isolation of branches presented a grave element of weakness in the face of possible calls upon cash resources, and left far too much authority in the hands of inexperienced or untried officers. It is thus not surprising to find leading bankers before the Committees of the 'thirties expressing mistrust in branch systems and favouring legislation—fortunately never passed—restricting the distance of a branch bank from the parent office. Some of the most serious failures among early joint stock banks were the result of hasty endeavours to found a branch system, and it was not until later in the nineteenth century that conditions were favourable for more than a limited application of this type of banking. The following table, which summarizes the position so far as available statistics can do so, depicts in outline the banking system as operating in England and Wales in 1844:—

(amounts are stated in £,000's)

	Number	Branches	Capital and Reserve	Note Circulation	Deposits
<b>BANK OF ENGLAND</b>					
(September 7) ...	1	12	18,118	20,176	12,275
<b>LONDON BANKS</b>					
Private ...	63	none	?	nil	27,000§
Joint stock ...	5	45*	2,244	nil	7,984
<b>PROVINCIAL BANKS</b>					
Private:					
Issuing ...	208	}	?	{ 5,153	?
Non-issuing ...	65				
	273				
Joint stock:					
Issuing ...	72	}	7,244†	{ 3,478	?
Non-issuing ...	28				
	100				

\* Of which 36 were accounted for by the London and County Bank.

† 48 banks did not give figures, and this amount represents capital only of the remainder.

§ Estimate by Joplin: Currency Reform: not Depreciation (1844).

NOTE.—London branches of foreign and colonial banks are not included in this or later tables. (See pages 34, 37 and 41)

(From *Bankers' Magazine*, 1844; Select Committee on the Bank Acts, 1857; and Handbook of London Bankers.—Hilton Price)

The form of the table indicates the sharp division between London and provincial banking. There was still no more than a slender connection between London and the country; the two groups of banks held strictly to their distinctive spheres of operation, and the application of the joint stock principle, while it had strengthened the separate parts, had not yet fused them into a co-ordinated system. The provincial joint stock banks, with their unregulated note issues, maintained London accounts in the same way as the country bankers, while the London joint stock banks drew considerable revenue from their services as agents for country and foreign correspondents. In the absence of a structurally unified system, bills of exchange were of growing importance as a means of spreading bank funds throughout the country, at the same time providing the material for a highly specialized section of the London money market, while a common instrument of remittance was the "bank post bill", or "composition bill".<sup>(1)</sup> The cheque, although creeping into more general use,<sup>(2)</sup> was still of minor importance, except in London, for it was not only unfamiliar but was also nominally subject to heavy stamp duties if drawn at a place more than fifteen miles from the bank at which it was payable. The legal minimum denomination of bank notes in England had been raised to five pounds in 1826, so that the smaller hand-to-hand currency was provided by gold and subsidiary coins. The branches of the Bank of England performed a useful service by acting as cash centres, and this in some measure compensated, in the eyes of the country banks, for their privileged competition in commercial banking. In some areas, moreover, the circulation of Bank of England notes had become firmly established through agreements under which local bankers surrendered their rights of issue, receiving in return a commission payment or a discount account at especially favourable rates.<sup>(3)</sup> This, however, contributed little towards closer cohesion. The country joint stock banks did not open accounts with the Bank of England, nor with its branches except under these special arrangements. Nevertheless, the Bank of England was supreme, in size and influence, among London banks

<sup>(1)</sup> The old bank post bill became known as the "composition bill" from the fact that by an Act of 1828 banks were permitted to compound for the stamp duty on such bills on the same terms as the Bank of England.

<sup>(2)</sup> Evidence of Vincent Stuckey before Secret Committee of 1832.

<sup>(3)</sup> Sir Robert Peel's speech, June 13, 1844, quotes Birmingham, Manchester and Liverpool as towns using Bank of England notes. See also page 60 for the type of arrangement made.



and in the London money market. Indeed, it was beginning to concentrate upon its functions as a central bank, though it was still far from being the controlling instrument of the banking system.

It was at this stage that Parliament, prompted by the general uneasiness voiced before the various committees of the preceding decade, and stimulated to action by the events of the crisis period of 1836-9, determined upon legislation. Even the more liberal political groups were alarmed—if for no very clearly expressed reason—by the rapid spread of joint stock banking, while those of the opposite colour did not hesitate to lay at the doors of the new banks a large measure of responsibility for the recent crises.<sup>(1)</sup> Unfortunately, while it may be admitted that some regulation was necessary to guide the new development into safe channels, in fact the measures passed had little of the quality of a judicious restraining code; on the contrary, they were contained in two Acts of such stringency that banking enterprise was almost stifled for more than a decade. Both Acts were sponsored by Sir Robert Peel, then Prime Minister.

The first of the two, the Bank Charter Act of 1844 (7 and 8 Vict. c. 32), has found a place in descriptive text books right down to modern times, for in several important respects it is still the basic statute of the central bank. In a history of joint stock banking it is necessary to refer in detail to only one group of the main provisions of the Act, those governing the rights of note issue of banks other than the Bank of England. These were clearly designed to secure ultimate concentration of note issue in the Bank, relying for that consummation upon the amalgamation movement, which was already in its early stages. The Act laid down, first, that no other bank in England, whether joint stock or private, which was not at that time issuing notes should be permitted to do so in the future. Secondly, each issuing bank was prohibited from circulating more notes than were outstanding immediately prior to the Act. Thirdly, it was permissible for two private banks of issue to amalgamate and retain the aggregate of their issues, provided the membership of the new partnership did not exceed six in number; but if an issuing joint stock bank absorbed a private bank of issue, or if two joint stock banks

<sup>(1)</sup> See evidence of S. J. Loyd (later Lord Overstone) before Select Committee on Banks of Issue, 1840. He stated that there were three principal causes of the crisis, one of them being "the very rapid and excessive expansion of the joint stock bank system".

of issue amalgamated, then the new note issue was not to be the sum of the existing note circulations, but only the amount permitted to the absorbing bank. Fourthly, if any joint stock bank of issue amalgamated with a bank, whether joint stock or private, having an office within the sixty-five miles radius, or itself opened a branch there, the right of issue was forfeited. And lastly, if any issuing bank closed its doors its right of issue lapsed. The Bank of England was entitled to apply for an increase in its own note circulation to the extent of two-thirds of any issues relinquished under these provisions.

The principal aim of these repressive provisions was to establish the legal tender note circulation of the Bank of England in an unassailable position—safe, that is, from the competition of other banks as well as from the temptation to over-issue. But in doing so the legislature made no provision whatsoever—rather the contrary—for the inevitable expansion in the public demand for money, for it depended entirely upon an increase in the stock of gold to supply any such needs. Moreover, the Act itself placed obstacles in the way of just those banking amalgamations which were likely to prove of greatest utility, and tended to put the clock back by giving a preference to private bank amalgamations over fusions in which joint stock banks were involved. Not only was the strengthening process of amalgamation arrested by the Act, but in addition, and perhaps even more irrationally, the barrier between London and provincial banking was maintained as a stumbling-block in the way of unification. Yet these were merely incidental results of an Act designed primarily to govern note circulations and to reaffirm the monopoly of the Bank of England.

It might well be asked what further obstacles could be placed in the way of banking progress, but the legislators of the time found no difficulty in answering the question, for in the same year still more onerous restrictions were placed upon the development of new joint stock banks by an Act "to regulate the Joint Stock Banks in England" (7 and 8 Vict. c. 113). It took the form of a code which governed the formation and conduct of all new joint stock banks, though leaving existing ones untouched. In future no bank was to be established without obtaining a charter, with a maximum term of twenty years, under Letters Patent, and this procedure necessitated the presentation of a petition to the Crown through the Committee of the Privy Council for Trade and Plantations. The

minimum nominal capital was to be £100,000, no share was to be of lower denomination than £100, and no company thus formed could begin business until all the shares had been subscribed and at least one-half of their nominal amount paid up. It was required that the deed of partnership should be in a form approved by the Privy Council and that it should contain, among other clauses, provisions forbidding the company to purchase or lend upon the security of its own shares, requiring a statement of assets and liabilities to be published once a month, and arranging for the annual accounts to be examined by auditors elected by the shareholders. Some of these provisions were eminently desirable—more than one had in fact become the practice of the joint stock banks in London—but among those covering procedure of formation and regulating deeds of settlement were some so stultifying as to render the establishment of new banks well-nigh impossible except for the most ambitious promoters and the most prosperous towns. And the restraint was all the more effective because the new type of bank would be subject to competition from joint stock rivals under much less stringent control. Even the desirable provisions of the code, by singular lack of conviction, were rendered practically ineffective, for the Act applied only to new banks; existing co-partnerships could, if they wished, obtain Letters Patent and bring themselves within the new Act, but it is almost unnecessary to add that very few did so.

Although the principal obstacles in the path of enterprise were set up by legislators, the course of economic events at this time was such as to add still further to the forces discouraging the formation of new banks. A succession of bad harvests in England had made necessary large imports of wheat, payment for which pressed heavily upon the gold reserve. In Ireland, repeated failure of the potato crop resulted in an acute shortage of the principal item in the Irish food supply, and entailed still further disparity in the trade position. These two adventitious causes of pressure were serious enough in themselves, but their effect was heightened by a wave of speculation that broke in 1847.<sup>(1)</sup> Unduly rapid railway construction had culminated in a veritable mania for the promotion of railway companies. The scramble to build tracks far more swiftly than available capital funds would justify had drained the resources of the country and strained the financial

<sup>(1)</sup> Some of the periodic crises in English finance are dealt with in more detail in chapters IX and X.

system to breaking point. So severe was the crisis that it was found necessary to suspend the operation of the restrictions on the Bank of England's note issue, though the Charter Act had been passed only three years previously. The Secret Committee of the House of Lords on the Commercial Distress was actually moved to suggest the introduction of a "discretionary relaxing power" into the rigid legislation. Their remedy was not adopted until 1928, and the note issue restrictions of the Bank Charter Act remained in full force until recent times.

The joint stock banking code was to receive much firmer handling. Its stern provisions, reinforced by those of the Charter Act, had brought almost to a standstill the establishment of new joint stock banks. During the decade following 1844 only three were founded, and, notwithstanding a brief spurt at the end, over the entire period of the operation of the banking code—it remained in force until 1857—not more than ten<sup>(1)</sup> attempted to establish themselves under its stringent conditions. An unforeseen result, similar to that which followed from the Scottish Act of 1845,<sup>(2)</sup> was to give existing banks a period of almost unqualified freedom from new competition. The joint stock banks both in London and the provinces made solid progress during these years. The private banks, however, though they too were relieved from further encroachments by new companies, failed to maintain their position. True, the rate of disappearance from failure or amalgamation slowed down, but the process by no means ceased. At the time of the Charter Act of 1844 there were 208 private banks authorized to issue notes; thirteen years later 157 remained, roughly one-half of the difference having disappeared by failure and one-half by amalgamation. Of the 72 joint stock banks of issue existing in 1844, 63 remained in 1857; six had failed, and three had lost their identity by amalgamation.

During this period of thirteen years, dissatisfaction with the clumsy banking legislation steadily gathered strength. A series of business failures, including that of the notorious Royal British Bank, one of the few to be founded under its provisions, brought matters to a head early in 1857. In August of that year, therefore,

<sup>(1)</sup> Select Committee on Bank Act, 1857, Appendix 21, where the total number would appear to be 8. See also page 293.

<sup>(2)</sup> See chapter XIII. Though the effect was similar, the root cause was quite different. In Scotland the importance of the right of note issue was so great that the introduction of legislation restricting circulations to existing institutions entirely prevented the formation of new banks.

an Act (20 and 21 Vict. c. 49) was passed repealing the whole of the code of 1844, lock, stock and barrel, and substituting a far simpler and more liberal set of provisions. Substantially, the Act brought about a reversion to the arrangements in force prior to 1844, with the important modifications resulting from the Bank Charter Act of that year; there was no restoration of former rights of note issue. Further, the minimum denomination for shares in banking companies was retained at £100; while the few banks established since 1844, as well as all new banks, were required to register under the provisions of the Act. Incidentally, the maximum number of persons permissible in a banking partnership as opposed to a company was raised from six to ten. The principle of limited liability of shareholders in companies had just been accepted and embodied in a general law, but the Act of 1857 expressly excluded banking companies from this privilege. For this further concession the banks were condemned to wait for yet another Act of Parliament.

The sweeping changes thus undertaken were by no means paralleled in the treatment accorded to the Bank Charter Act of 1844. Only a few months after the repeal of the joint stock banking code the basic principle of the Charter Act was once again shaken by a financial storm, but again the portents were ignored. The discovery of new gold mines in California and Australia had given a strong stimulus to enterprise of all kinds; a riot of speculation occurred in America, while England took her full share in the general buoyancy of the times. Although it had seemed that the growing regulative power of the Bank of England would be sufficient to avoid a crisis, in fact circumstances proved too strong. In the autumn of 1857 America was swept by a crisis of great severity, and the disastrous collapse of confidence was quickly reflected in monetary centres across the Atlantic. The towns most severely affected were those connected with the American trade; London, Glasgow and Liverpool each had its crop of bankruptcies. A number of bank suspensions, both in England and Scotland, set up a drain on the Bank of England's gold holding, besides contributing to an increase of public alarm. As in 1847, the principal means of reassuring the business world was a communication from the Government authorizing the Bank of England to disregard the note issue restrictions of the Act of 1844, and the step proved an effective sedative for a panic-stricken

community. By Christmas Eve the worst of the crisis was over, and it was once again possible to ignore, without jeopardy to peace of mind, the basic imperfections of existing legislation. Indeed, this time the Select Committee on the Bank Acts, in its report of 1858, expressed no sympathy with the claim for more flexible note issue provisions, and gave implied support to the remarkable opinion, expressed by the Governor of the Bank, that the "Act of 1844 operated not as a fetter, but as a support, decidedly".

To return to the position of joint stock banking, although the period of comparative freedom from competition had expired in 1857, yet it had been sufficiently long for many of the joint stock banks to become firmly entrenched. In London the antagonism even of the thinning ranks of metropolitan private bankers was beginning to break down. The joint stock banks had demonstrated their soundness in staunchly withstanding the panic of 1847, and had emerged with greatly enhanced reputations. The worst of the struggle was over in 1854, when the London joint stock banks were at last admitted to seats in the Clearing House. Until then they had been obliged to present cheques for collection at the various banks upon which they were drawn, and to pay or receive Bank of England notes at the time of presentation. By this time, moreover, so assured had the first companies become of their position that the allowance of interest upon current accounts had been reduced or abandoned altogether, without any loss of business.<sup>(1)</sup> So, too, the joint stock banks in the provinces were consolidating their position and influence. The more venturesome among them received a sharp lesson in 1847, but the few failures were relatively unimportant compared with the number of banks that stood firm and with the weaknesses disclosed among the declining numbers of private bankers. The progress of London joint stock banking during the period is well illustrated by the fact that the five joint stock banks existing in 1844 had increased their aggregate deposits from £8 millions in that year to £40 millions in 1857. The success of the pioneers led to the formation, despite deterrent legislation, of four new metropolitan banks in 1855-7.

These figures show a striking change for so short a period, and the relative progress recorded would probably appear even more pronounced if corresponding data were available for the London

<sup>(1)</sup> See chapter IX.

private bankers. Moreover, the advance of joint stock banking in the provinces, if it were possible to measure it in figures, would probably emphasize again the displacement of private firms by joint stock banks as well as the real extent of the new sources of banking funds which were being tapped. But the publication of balance sheets was still a rarity except among the London joint stock banks. None of the private bankers issued any figures at all, except as to note issue, while very few of the principal country joint stock banks printed anything more than an annual statement of capital and of the allocation of profits. Most of the banks, having been established under the Act of 1826, were not required by law to publish balance sheets, and their reluctance to do so was supported by no less an authority than Sir Robert Peel himself.<sup>(1)</sup> Not until the 'eighties did the publication of balance sheets become at all general, and even then many of them consisted of a few omnibus items combining figures now shown separately as a matter of course.

Though there was little change in the number of joint stock banks, there was ample non-statistical evidence of their progress. In general, they had begun to extend the range of bank customers, for both in the provinces and in London they encouraged the small trader and manufacturer, hitherto indifferently served by the private banker, and made special arrangements to meet his requirements. Further, with the general improvement in transport facilities, branch systems were slowly extending on all sides. The London joint stock banks, now that they were members of the Clearing House, were at little disadvantage in competition for the agency business of country banks, which had become increasingly important as the use of cheques developed. The growing use of these instruments explains the strong opposition offered by country banks in 1855 to the proposed penny stamp on all cheques, and the tendency was strengthened, if anything, by the new stamp legislation which eventually became law in 1858, for it applied to cheques drawn from any distance, and so removed the heavier duties on those dated from outside the fifteen miles radius of the drawee bank.

One privilege available to companies in other fields—that of limited liability—was still denied to joint stock banks. Theoretically

<sup>(1)</sup> Replying, on May 6, 1844, to the suggestion that banks should be required by law to publish annual figures, he said "I do not wish to pry into the affairs of each bank. . . . It has been frequently proposed to require from each bank a periodical publication of its liabilities, its assets, and the state of its transactions generally. But I have seen no form of account which would be at all satisfactory."

cally a similar limitation of risk had been enjoyed by virtue of a clause in most deeds of co-partnership requiring the company to be wound up if more than one-quarter of the capital were lost. In practice, however, the provision was almost entirely ignored, and many a shareholder found, upon the failure of his company, that not only had all his capital been already lost, but a good deal more besides. From the very beginning there had been advocates of limited liability in banking. Joplin had spoken favourably of the principle, and William Clay in 1836 had argued strongly in Parliament for the granting of limited liability to bank shareholders, probably having in mind a form of chartered company. Again, in 1849 leave was sought by a private Member of Parliament to bring in a bill for the purpose, but the motion was withdrawn in face of Government opposition. Feeling had become lukewarm on the subject, and the general attitude was expressed by the *Bankers' Magazine* in the words that the "law may safely be left as it is".<sup>(1)</sup> When, however, under the Act of 1857, joint stock banks became subject in almost all respects to the general company law, the days of discrimination were numbered, and a short bill was passed in the following year to enable new banks to be formed with limited liability, except as regards note issues. Existing banks were permitted to avail themselves of the Act (21 and 22 Vict. c. 91), but if they did so they were required, as were new limited liability banks, to publish "a statement of assets and liabilities" twice a year and exhibit it in every branch of the bank. By the legislation of 1857-8 it became possible for banking co-partnerships to shed their cumbersome constitutions and acquire the benefits of incorporation as either limited or unlimited companies, and the way seemed clear for a burst of new formations and for widespread adoption of the more convenient forms. In fact, neither development took place for several years.

One reason for the delay in adopting limited liability form was that the joint stock banks had already acquired a tradition which made them nervous of availing themselves of the permissive legislation. Much of their goodwill was supposed to rest upon the unlimited liability of the partners, and it was thought that any lessening of this protection would give rise to a feeling of distrust, more particularly if competitors adhered to the unlimited form. This difficulty, along with probable reluctance to

<sup>(1)</sup> 1849, page 305.



submit to publication of balance sheets, delayed for twenty years the general adoption of limited liability among banks already established. It operated with less force against new formations, but here a different obstacle existed in the maintenance, under the 1857 Act, of the minimum share denomination of £100. This disability was removed in 1862 by the Companies Act, a consolidating measure which greatly simplified the existing laws affecting companies generally, including banks, and the results were immediate. The early 'sixties saw the swift spread of limited liability banking in both London and the provinces. Twenty-four new banks were established in the fifteen years to 1875, and the rush of new promotions was accentuated by changes of form among existing banks, particularly the conversion of private into limited joint stock banks, provoking a comment from the *Bankers' Magazine* that "the Banking Mania had fairly set in".<sup>(1)</sup> The convenience and popularity of limited liability, so far from placing a check on the progress of joint stock banking, led to further encroachment on the narrowed field of private banking; many amalgamations and re-arrangements took place, such outstanding private firms in London as Jones, Loyd and Co. and Heywood, Kennard and Co. being absorbed by joint stock banks, while leading provincial bankers, such as the Lloyds of Birmingham and J. M. Head and Co. of Carlisle, became converted into limited liability companies. This, as the *Bankers' Magazine* observed, possibly a little prematurely, was a "rapid fulfilment of the break-up of the private banking system".<sup>(2)</sup>

The application of limited liability, however, brought evil as well as good. The period, except in the cotton areas, was one of great expansion in trade, assisted by an increase in banking facilities. These facts, along with the new inducements to investment and speculation, led to excessive company formation and top-heavy financing, which culminated in many business failures. By far the most disastrous was the collapse, in May 1866, of Overend, Gurney and Co., the largest discount house in London, with liabilities of more than £10 millions. Some particulars of the ensuing panic and distress, which involved suspension once again

<sup>(1)</sup> 1862, pages 312 and 337. The movement was largely in the nature of a speculative boom in the formation of banks for foreign trade, many of which were unsuccessful. A. S. J. Baster: *The International Banks*, page 40 *et seq.*

<sup>(2)</sup> 1864, page 409. It may be noted that the list of stock exchange securities regularly quoted in the *Economist* during 1865 filled four columns, and bank shares alone occupied three-quarters of a column.

of the restrictions on the Bank of England's note issue, are given in chapter X; here it need only be noted that the failure served to shake still further the declining confidence of the public in private banks, for the discount house had changed to limited liability form only a few months previously. On the other hand, it gravely imperilled the position of several of the new limited liability banks, the form of whose shares presented golden opportunities for subtle speculation. Some of them were made victims of interested scaremongers who fostered and exploited feelings of insecurity with the object of conducting bear operations in their shares, until legislation in 1867 closed the door to further manipulations.<sup>(1)</sup> Small wonder that the experiences of the crisis stiffened the reluctance of many of the larger, old-established joint stock banks to accept the form of limited liability. A number of them did go so far, however, as to abandon their old co-partnership constitutions and register as unlimited liability companies, thus securing a reduction from three to one years of the period of liability remaining with a shareholder after transfer of his shares.

The final step was the outcome of a disaster which revealed as never before the grave dangers of unlimited liability. The failure in 1878 of the City of Glasgow Bank,<sup>(2)</sup> with large liabilities and wholly inadequate assets, gave a warning which could not be disregarded, more especially since it came from the system hitherto looked upon as setting the standard of all good banking. Ultimately, the losses fell most heavily upon innocent shareholders, overburdened by successive and mounting calls upon shares carrying unlimited liability. A flight of capital, fortunately restrained, from bank shares was an inevitable consequence, and the general decline in their market prices revealed their growing unpopularity. The only way of restoring the confidence of investors was to protect them by limited liability, and this required the discovery of some arrangement which would commend itself to the older and larger joint stock banks. The problem was solved by the Act of 1879, which, by the ingenuity of George Rae,<sup>(3)</sup> established a new legislative principle of "reserved liability" in a simple, workable frame. It provided that the unpaid portion

<sup>(1)</sup> "Leeman's Act". It required contracts for the purchase or sale of bank shares to quote the distinguishing numbers. The strict letter of this Act was enforced for a short period only, but its presence on the statute book served the purpose (see also pages 305-6).

<sup>(2)</sup> See chapter XIII.

<sup>(3)</sup> See biographical sketch: George Rae.

of limited liability bank shares might be divided into two parts, one being callable at the discretion of the directors, and the other only in the event of the winding-up of the company. During the next few years the principle of "reserved liability" was widely adopted; the London joint stock banks, for example, registered with reserved liability in 1882, sharing in a simultaneous conversion to limited liability form. One result of the change was to bring into general practice the publication of bank balance sheets at least once a year, a practice which again helped forward the amalgamation process by indicating the financial position of provincial banks.<sup>(1)</sup> The following table drawn up for 1884 gives as complete a statistical outline of the banking situation then as it is possible to obtain:—

	(amounts are stated in £,000's)		Capital and Reserve	Note Circulation	Deposits
	Number	Branches			
<b>BANK OF ENGLAND</b>					
(September 24) ...	I	II	18,295	25,102	29,372
<b>LONDON BANKS</b>					
Private ...	35	10	?	nil	68,000*
Joint stock ...	21	52	18,147	nil	76,654
<b>LONDON AND PROVINCIAL BANKS</b>					
Joint stock ...	6	517	9,000	nil	69,738
<b>PROVINCIAL BANKS</b>					
Private:					
Issuing ...	100	330	?	1,439	78,561*
Non-issuing ...	72	103		nil	
	—	172			
Joint stock:					
Issuing ...	45	523	15,749	1,541	54,456
Non-issuing ...	46	529	18,728	nil	80,887
	—	91			

\* Estimates: the private banks did not publish balance sheets, while 11 provincial joint stock banks did not give full figures.

(From *Economist* Banking Supplements, 1884; *Bankers' Almanac*, 1884; and James Dick: paper entitled "Banking Statistics: A Record of Nine Years' Progress—1874-83", read before the Institute of Bankers, May 1884).

When this table is compared with the statement constructed for forty years earlier some remarkable differences are revealed. The number of private banks had fallen considerably, though an ineffective stand had been made by a last-minute development of

<sup>(1)</sup> See page 310.

branch banking. The joint stock banks, while showing no great numerical increase, had secured a marked predominance, visible in other figures. The number of their branches had trebled and their resources were greatly enlarged. The increasing wealth of the community and extension of the banking habit had added greatly to the total of bank deposits, and the joint stock banks had obtained by far the larger share of the increment. Perhaps the most important development of all is shown by the reference in the record to a group of banks operating both in London and the provinces, a new group that already controlled resources nearly equal to those of the purely London joint stock banks and more than one-half of the total resources of the provincial joint stock banks. By this time it was almost true to say that the cheque had replaced the bank-note as the principal medium of exchange—in 1840 the turnover at the London Clearing House was less than £1,000 millions,<sup>(1)</sup> but by 1884 it had grown to nearly £6,000 millions. Thus, when in 1865 Gladstone had brought forward a Country Banks of Issue bill that would have permitted country joint stock banks to issue notes within three miles of the City of London, the measure aroused little interest and was soon withdrawn. A similar fate befell a second bill, introduced by Henry Lowe in 1873. The steady decline in the relative importance of the note issue had quietly overcome one of the principal separatist provisions of the Bank Charter Act of 1844, and paved the way for structural unification within the banking system.

Nevertheless, no more than a start had as yet been made along the new road. The bill of exchange was still extensively employed in the internal business of the country, though the loan and overdraft systems were growing in popularity. Some of the provincial joint stock banks had developed fairly extensive branch systems, but the great majority of them confined their activities within a small area, and the bulk of the banking business of the country was still conducted by numerous independent establishments. Generally speaking, however, the separate units were much more powerful than forty years earlier. The average unit of industry and commerce was growing in size and scope, and a similar tendency was indispensable in banking if adequate facilities were to be afforded. The tendency was helped

<sup>(1)</sup> Burgess' Circular to Bankers, April 19, 1844. The comparison of figures must not be pressed too far, since the membership of the Clearing House had broadened over the period.

forward by the immense improvement in communications, which had broken down geographical isolation, and the banks themselves were now coming into closer contact with each other. The form of association with the capital city—the employment by country banks of London agents—was maintained, but relationships were becoming closer and more highly regularized through the readier placing of surplus funds in London, the increasing tendency to regard London as the ultimate reservoir of cash, and the greater concentration of bill dealings in the London money market, which for long had been the leading world centre of finance.

In effect, English banking, though still bearing the marks of its restrained and troubled childhood, was already taking upon itself the shape of a cohesive and orderly system. The Bank of England by now had become firmly established as the controlling institution at the hub of the monetary system, though its powers, almost confined to operating upon rates of interest, were by no means so comprehensive as today. The lesson that statutory control of note issues did not relieve the central institution of its responsibilities as a regulating force had been learnt, and the first stage of centralization was definitely past. In the words of Walter Bagehot,<sup>(1)</sup> by “a most curious sequence of historical events the Bank of England holds in its banking department the cash reserves for the whole of the banks of the country”, while by a sequence no less curious it had evolved from a privileged competitor into a principal organ of regulation.

The next stage of development, though quite in the established order of evolution, arose partly from considerations of economy in operation. One of the most striking entries in the last table discloses the advent of a new type of bank, operating both in London and the provinces, and it was evident that the geographical division between the separate parts of the banking system was at last becoming blurred. The movement was clearly at one with the general integration observable in all branches of business, but it was hastened by the increasing expense imposed upon country banks in maintaining a London agency, the cost of which mounted as banking operations became more centralized. There had been early indications of the impending change: the National Provincial Bank in 1866 relinquished the profits, direct and indirect, of a large note issue in order to operate a London office;<sup>(2)</sup> meanwhile

<sup>(1)</sup> Evidence before Committee on Banks of Issue, 1875.

<sup>(2)</sup> See chapter X, page 309.

the London and County Bank had steadily pursued its policy of opening more and more suburban and provincial offices.<sup>(1)</sup> All over the country joint stock banks were joining together, branch systems were being extended, and private banks were rapidly disappearing. The remaining years of the nineteenth century were occupied first and foremost with a rapid process of consolidation, undisturbed by new legislative obstacles. The battle of the joint stock banks against the forces of privilege, entrenched behind partisan statutes, had been definitely and finally won. When Lloyds Bank, hitherto confined to the midlands, absorbed two well-known London banking houses in 1884, when the Birmingham and Midland Bank took over the Central Bank of London in 1891, and when Barclays united fifteen private firms into one large company in 1896, it was plain that the day of the small local bank, whether joint stock or private, was very near its end. The position reached by 1904 was as follows :—

(amounts are stated in £000's)						
	Number	Branches	Capital and Reserve	Note Circulation	Deposits	
<b>BANK OF ENGLAND</b> (September 21) ...	1	11	17,553	27,835	49,204	
<b>LONDON BANKS</b>						
Private ...	*					
Joint stock ...	14	85	13,065	nil	71,211	
<b>LONDON AND PROVINCIAL BANKS</b>						
Joint stock ...	12	2,721	41,718	nil	362,414	
<b>PROVINCIAL BANKS</b>						
Private :						
Issuing ...	18	136	} 2,045†	{ 160	} 14,372†	
Non-issuing ...	17	60				nil
	—	35				
Joint stock :						
Issuing ...	21‡	667	11,585	517	68,342	
Non-issuing ...	18	941	15,377	nil	82,196	
	—	39				

\* The difficulty of distinguishing true banking firms from a large group of miscellaneous financial houses in London prevents the insertion of an exact figure. It may be taken that the declining trend revealed in earlier tables had still further reduced both numbers and strength.

† Figures for eight banks only ; others did not publish balance sheets.

‡ Including Channel Islands and Isle of Man.

(From *Economist* Banking Supplement, October 1904, and *Bankers' Almanac*, 1904).

<sup>(1)</sup> It should be noted, however, that the branches of the London and County Bank were nearly all within the sixty-five miles radius of London, thus illustrating the "separatist" effect of the Bank Act.

The rapidly changing structure of English banking is seen in the smaller number of banks and the increase in their average size, as well as in the remarkable additions to the total of branches. Private banks had dwindled to very small numbers, following to a logical conclusion the clear trend of earlier tables, but there was almost as great a change in the outline of the joint stock banking system. The twenty years that had passed since the date of the preceding table had seen the achievement of a position of easy supremacy by a small group of banks, combining both a London and a country business. While there still remained a few powerful banks conducting businesses confined to London or to the provinces, it was plain that their time was short. From this stage both the amalgamation movement and branch extension pressed forward with a wider sweep. Expansion was now planned on a country-wide conception; the banking system was following closely in the wake of general economic cohesion. In what was in essence a phase of nineteenth century economic evolution the motive of corporate ambition undoubtedly played a part, but the process was much more than a struggle for leadership. The wider the range of a branch system, the more economically could banking services be rendered, and the more stable became the structure. Only by spreading resources over the greatest possible variety of industries and personnel of borrowers could the banks attain maximum stability, and this same process of consolidation ensured that banking funds flowed readily from areas of surfeit to be distributed over districts in need of working capital.

As early as 1890 it was possible to call upon a banking system proper to avert, by voluntary action, a major calamity. In 1890 the London firm of Barings, occupying a high position in international finance, was found to be in difficulties resulting from swollen commitments and temporarily illiquid resources, particularly in South American securities. The situation threatened a crisis even more severe than that of 1866, but the Bank of England at once took steps to "invoke the aid and support of the financial community".<sup>(1)</sup> A guarantee of Barings' contingent liabilities was shared in by a large number of banks, and, although grave disturbance resulted, the crisis was overcome without panic or serious interruption to the conduct of general banking business, and with the complete re-establishment of the credit of a highly-honoured

<sup>(1)</sup> Speech of the Governor, William Lidderdale, at the Bank of England meeting, March 11, 1891.

firm. Seventeen years later, when the American banking crisis reverberated through every financial centre, the newly co-ordinated English system was able to bear the strain without disturbance beyond the limits of the City's turbulent "square mile". Meanwhile a new contribution was being made from the non-structural side to the attainment of cohesion. The events of 1890 had provoked widespread and critical comments on the subject of banking reserves; in particular Lord Goschen, whose opinions carried the greater weight by reason of his distinguished chancellorship, publicly criticized the lack of information on this subject and the low proportion of cash holdings to bank liabilities. A consequence of the ensuing discussion was the publication by several large joint stock banks<sup>(1)</sup> of monthly statements of account representing the position at the close of business on a particular day in each month. Thus the proportion between cash and deposit liabilities was brought into prominence and the banks began to become effectively "ratio conscious". True, for a few years before the war the movement towards greater cohesion in banking control suffered a minor setback through the accumulation by leading joint stock banks of individual gold reserves, yet this did not seriously impair the authority of the central bank, and the conception of a regular cash ratio used as a practical guide in banking operations was steadily evolved. The publication of monthly figures ceased on the outbreak of war, and was resumed in 1921 in a greatly improved and more comprehensive form, so that the cash ratios of the commercial banks came to provide the principal medium for the smooth operation of central bank policy.

Even by 1914, however, the banking system, at any rate in respect of structure, had arrived at an advanced stage of consolidation, though further steps in that direction were deferred in the face of more urgent necessities. Moreover, a new phase of competition had appeared among the now relatively small number of nation-wide banks which by their size might be said to dominate the financial world. Competition in services was by now replacing rivalry in size. In 1905 the Midland Bank had trespassed on forbidden ground by opening a special department for the business of foreign exchange, hitherto the strict preserve of specialized firms. Other institutions had all in due course

<sup>(1)</sup> Twelve banks (later thirteen) published such statements, but for a long period the total figures covered less than one-half of the aggregate deposits of English banks: R. H. Inglis Palgrave, article on Bank Balance Sheets, *Institute of Bankers Journal*, March 1907.



followed, and shortly afterwards the banks had begun to act for clients as trustees and executors. Meanwhile the banks, by offering steadily more favourable inducements, had become widely used depositories of small personal savings. On the structural side, branches had been established to fill in geographical gaps in the systems of individual banks.

It was natural, for psychological reasons if for no others, that the amalgamation movement, having been held in check even for a short period, should have burst forth with all the vigour of inhibited strength as soon as the critical stage of banking strain appeared to be over. The renewal of the trend towards fusion was hastened by the conviction that the years of peace would bring a general reconstruction and expansion in industry calling for the strong support which only large banking units could give. Further, the rapid increase in the size of industrial and banking units on the continent, more particularly in Germany, injected a sense of patriotic necessity into the situation. Thus 1917 and 1918 witnessed a series of rapid and extensive fusions. One of the most notable among them, because new in type, was the affiliation, in 1917, of the Belfast Banking Company<sup>(1)</sup> with the London City and Midland Bank. This first acquisition of an Irish bank, which by right of law and course of history retained its note-issuing privilege, marked a new phase in the concentration of banking strength and policy. The example was quickly followed, and banks in both Ireland and Scotland were speedily brought into association with giant English undertakings, while for practical purposes retaining their identity.<sup>(11)</sup>

By 1918 the process of consolidation had reduced the number of banks of first magnitude to five institutions whose resources were nearly two-thirds of the total for the whole country. The "Big Five", as they came to be called, were all nation-wide banks, with branch systems spreading to nearly every town and innumerable villages. The magnitude of the later amalgamations, however, had prompted fears, which were fostered in the press, of the emergence of a "money trust", invested with all the sinister power of a monopoly. The resultant feeling of uneasiness led to the appointment in 1918 of a Treasury Committee on Bank Amalgamations, which lost no time in making its report. The

<sup>(1)</sup> The story of the Belfast Banking Company is told in chapter XII.

<sup>(11)</sup> In all these affiliations the capital of the Scottish or Irish bank has been acquired and held by the English bank, and some community of directorates has usually been arranged.

members of the committee were agreed on the possibility that the process of concentration might produce an enormous institution menacing the supremacy of the Bank of England (at this point one can almost hear indignant protests from the ghosts of Peel and Overstone), and possibly even the Government itself. A bill was drawn up to incorporate the committee's recommendations, but was set aside in favour of a general undertaking given to the Government by the banks. Thereafter all proposed amalgamations or arrangements for joint working were to be submitted to the Treasury and Board of Trade and concluded only with their consent. So it was that the banking structure was set into its present shape; such changes as did occur subsequently were far less extensive than in the preceding years. A few remaining small joint stock banks were absorbed or consolidated, some further "affiliations" were arranged, and the last survivor among country note issues lapsed.<sup>(1)</sup> The concluding table illustrates the position at the end of 1934, but it should be noted that, by reason of difficulty of definition of the term "bank", the figures are in the nature of a general guide rather than an exact statement.

(amounts are stated in £000's)

	Number	Branches	Capital and Reserve	Note Circulation	Deposits
BANK OF ENGLAND (September 26) ...	I	9	18,262	377,028	174,933
LONDON BANKS					
Private ...	*				
Joint stock ...	3	4	2,593	nil	24,688
LONDON AND PROVINCIAL BANKS					
Joint stock ...	11	9,954	130,014	nil	2,002,630
PROVINCIAL BANKS					
Private:					
Issuing ...	nil				
Non-issuing ...	*				
Joint stock:					
Issuing ...	I	9	316	85†	3,213
Non-issuing ...	I	164	1,250	nil	17,453

\* Owing to the difficulties of definition no precise number can be inserted, but it may be taken that private banks, in the sense of partnerships performing pure domestic banking functions, had by this time almost completely disappeared.

† Banks operating in the Isle of Man still retain a local note circulation.

(From *Economist* Banking Supplement, May 1935 and *Bankers' Almanac*, 1934-35)

<sup>(1)</sup> The firm of Fox, Fowler and Co., of Wellington, Somerset, was absorbed by Lloyds Bank in 1921.

To compare this table with earlier statements is to gain a clear impression of the structural effects of the concentration movement. But the figures of deposits illustrate another tendency, which lay in the more and more widespread resort to the banks as custodians of the funds of a growing population whose standard of income was rising steadily. The growth of figures is not wholly attributable to this factor, for war and post-war inflation played its part; yet they do indicate the rapid democratization of banking service. Looking back, it is easy to see that the century of history witnessed an almost complete transformation of banking structure and methods. Corresponding changes were taking place also in the organization of industry and trade, but the difference in pace and evenness of development is noticeable. Industry and trade, generally speaking, were left free to respond to the advance of technical and administrative invention, more or less unhampered by any serious legislative impediments. Most of the laws affecting industry and trade were concerned with working conditions, and favoured no one unit or section at the expense of others. The business of banking, on the other hand, was struggling against the shackles of restrictive and discriminatory legislation until well into the second half of last century. There can be little doubt that, had successive governments viewed banking development as a necessary accompaniment to maximum progress in trade and industry, wiser and more liberal legislation would have resulted, and structural cohesion and technical efficiency been more swiftly attained. In many ways the strong, unified banking system of England was the product of pertinacity and ingenious adaptation to restrictive laws, rather than of design or even unimpeded evolution; the present position has been attained in spite of, and not because of, the Peels and Overstones of formative years. Over and above all external factors, the emergence of a sound, cohesive banking system must be attributed to the energy and inventiveness of the Joplins, Gilberts, Raes and Holdens, who, with their innumerable unnamed contemporaries, built a stable, enduring structure out of scattered bits of straw.

## CHAPTER II

### EARLY BANKING ENTERPRISE IN THE MIDLANDS

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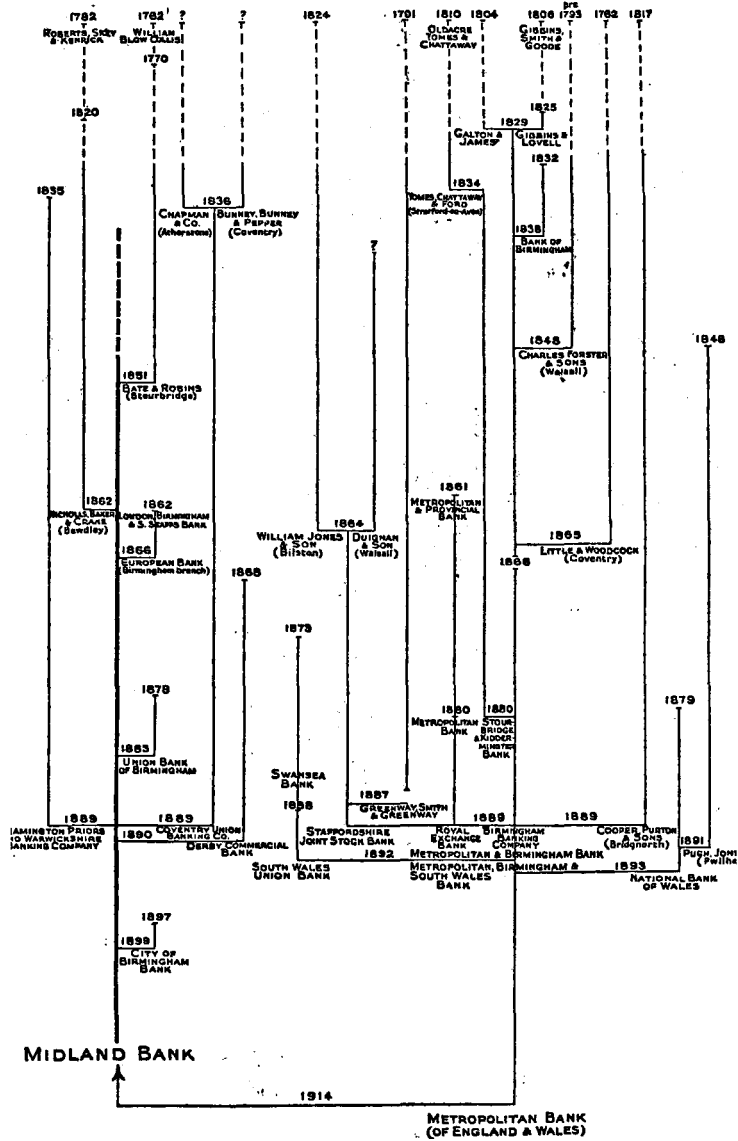
In 1836 the Birmingham and Midland Bank was established in Birmingham. The town then possessed several private banks of long standing, and a beginning had been made upon joint stock banking by the formation of the Birmingham Banking Company in 1829. This pioneer institution absorbed the Bank of Birmingham in 1838, and joined forces with the Stourbridge and Kidderminster Bank in 1880 and the Staffordshire Joint Stock Bank in 1889. Eventually it became the Metropolitan Bank (of England and Wales), and under that title was absorbed by the Midland Bank in 1914. Meanwhile, the Midland had taken over the Union Bank of Birmingham in 1883 and the City of Birmingham Bank in 1899.

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THE story to be told in this chapter, the first of a series of regional studies, embraces a number of banks established in Birmingham and various other towns of the midlands. It happens that they are representative of particular aspects of banking development in the area, but their selection has been determined by the chance of history. In course of time all of them, either directly or indirectly, became part of the Midland Bank, and the manner of their doing so may be followed from the chart on page 44. Some were small private banks and some large joint stock institutions; indeed, for many years one was considerably larger than the Midland itself. Moreover, there were other banks of the town and neighbourhood which, though of first importance, are altogether excluded from these pages, or receive no more than a passing reference, because they eventually came to form parts of banks other than the Midland. Nevertheless, the number and variety of banks in the district falling within the history of the Midland Bank are considerable and provide ample illustration of the general trends outlined in chapter I.

At the opening of the nineteenth century the midlands encompassed a number of towns—some of long-standing importance and some of recent growth—united in a common experience of rapid expansion by virtue of newly-developed resources. The iron industries are usually regarded as the backbone of Britain's industrial advance in the early nineteenth century, and of no part of Britain is this more true than of the midlands. Never-

**THE CONNECTION IN THE MIDLANDS**



theless, at the beginning of the period the area covered wide differences of industrial structure, ranging from the great iron works of south Staffordshire to the Worcestershire nailmaker's cottage. All were by this time working on coal, though the primary industry had been founded upon the timber resources of the midland counties, following the exhaustion of the woodlands of Sussex and the Weald. The midlands, amply provided with coal, as well as with iron ore, had succeeded in retaining and vastly expanding their new-found economic activities, branching out into every department of metallurgical work. In this the area was favoured by an exceptional equipment of natural waterways. The river banks of the Severn and its tributaries provided convenient sites for the early works and a ready means of transport of bulky materials. Moreover, in the second half of the eighteenth century the rivers had been improved upon by the construction of canals.

The iron industries as a whole had received a strong stimulus from the introduction of Watt's steam engine towards the end of the eighteenth century. With the concentration of the industry upon the coalfields a great increase in iron production took place, ushering in the age of the large integrated firm in succession to that of the great ironmaster. Again, the progress of invention in the textile industries had widened the demand for iron. By the turn of the century Shropshire and Staffordshire were second and third on the list of pig-iron producing centres of Great Britain, and their total outputs were surpassed only by that of South Wales, which itself had been developed largely on the initiative of ironmasters from the midlands. The progress of the industry as a whole is indicated by an estimate that in 1740 the amount of iron produced in England and Wales was 17,350 tons, wholly smelted by charcoal, whereas by 1796 England, Wales and Scotland were producing 124,879 tons, largely on coke. Twenty-eight years later the figure exceeded 440,000 tons, while in 1840 it was well over one-and-a-quarter million tons, of which Shropshire and Staffordshire together and South Wales each accounted for more than one-third.

It was in this period of rapid development that banking established itself in the midlands, and by the beginning of the nineteenth century nearly every town of importance boasted at least one bank, often arising directly from its principal business.

Perhaps the earliest bank in the midlands was founded at Stourbridge, a centre for the nail-making industry of the surrounding countryside and an ancient seat of glass manufacture. William Blow Collis was a mercer and draper, and little is known of him save that he was born in 1722, and that to his trading business he added that of banking. When at the age of forty he registered his seal at Worcester he was described as a "mercator and banker". There are still in existence notes for one-fourth of a guinea issued by him in the following form:—

Stourbridge 17—  
For Five Shillings & 3d.  
Payable to Bearer  
not less than Four together  
(Signed) W. B. COLLIS.

The incomplete date probably lay between 1760 and 1775,<sup>(1)</sup> when a severe shortage of small change encouraged issues of this kind. A nephew of Collis married one Ann Robins; and it is probable that her brother's son, William Robins, as partner with a Mr. Bate, continued the banking business. At any rate, from 1770 the old bank at Stourbridge was entitled Bate and Robins, and with the establishment of improved communication by a canal giving access to the midland waterways, the town was set on a course of growing activity, though even by 1801 its population was no more than 3,000. With various partnership changes the bank continued to serve the business of the town for nearly a century.

Another example of early banking enterprise is to be found in the nearby town of Bewdley. Here quite clearly the first appearance of banking arose from the importance of the town as a river port, whose short-lived industrial importance owed much to Samuel Skey.<sup>(2)</sup> Born in 1726 in Upton-on-Severn, Skey was apprenticed early in life to a grocer and dry-salter of Bewdley. When his articles expired he was favoured by a legacy of £1,000, and with this he set to work to build up a small fortune. In the neighbouring parish of Dowles he erected extensive works primarily for the production of sulphuric and nitric acid, but also engaged in brass and pewter work and even gold refining. The vital importance of water transport is revealed by the traces of a canal and tramway built by Skey to connect

<sup>(1)</sup> The issue of notes for less than one pound was prohibited by law in 1775.

<sup>(2)</sup> J. R. Burton: *A History of Bewdley* (1883).

these early works with the river. His success is measured by his purchase in 1790 of the manor of Dowles, Bewdley. But this story is more closely concerned with one of his earlier undertakings. The town was without a bank, and it was perhaps inevitable that so prominent a townsman as Skey should play a part in the first enterprise in this field.

In 1782 the firm of Roberts, Skey and Kenrick was established, and there can be little doubt that Skey of the banking firm was Skey the industrialist. It was the only banking house of Bewdley to survive the crises of the early nineteenth century, and it remained in 1820 as Roberts, Baker and Crane, with a capital of £21,000 and an extensive note issue. It is known that the firm had connections with Cleobury Mortimer and with Worcester, but these seem to have been abandoned early in the century. With improvements in transport the position of the river ports declined, and their trades tended to gravitate to more favoured centres, so that the population of Bewdley, which in 1831 numbered only 4,000, thereafter fell away. Nevertheless, the banking firm, as Nicholls, Baker and Crane, maintained an independent existence until the middle of the nineteenth century.

Characteristic of the rapid development of industry in the midlands in the early nineteenth century are the Staffordshire towns of Bilston and Walsall. The great iron firms of the country had long since provided examples of large-scale organization embracing in one unit the control of collieries, iron mines, mills and forges. Extractive industries, from their very nature, are bound up with ownership of the land—for centuries the principal means of storing claims to wealth—and it was from the great landowners that capital for these early enterprises was drawn. Ironmasters became experienced dealers in credit, accustomed to the handling of large sums; many of them struck their own coins and issued their own notes; and some of them became pure bankers.<sup>(1)</sup> Yet by virtue of the large amount of wealth involved in their undertakings it sometimes happened that the complete separation of banking functions was delayed. Thus Bilston, with its collieries and ironworks, had no separate bank by 1793.

Bilston, described at that time as "the largest village in England",<sup>(2)</sup> with a population of about 6,000, was the seat of a leading ironworks established by John Wilkinson, who, among

<sup>(1)</sup> T. S. Ashton: *Iron and Steel in the Industrial Revolution* (1924).

<sup>(2)</sup> Barfoot and Wilkes: *Universal British Directory* (1793).



his many activities, is known to have issued token coins and notes.<sup>(1)</sup> To meet more elaborate financial needs it was necessary to call upon the services of bankers in larger neighbouring towns; thus we find Charles Forster, an old-established banker of Walsall, extending his field to Bilston. By the opening years of the nineteenth century a colliery firm had crystallized into a partnership of private bankers, and was competing with another of unknown origin. The succeeding years of wars and crises reduced the number of bankers in the town; in 1825 there was but one firm, that of Jones, Son and Foster, and this dated only from 1824. Despite a violent attack during the "bread riots", in which the manager was seriously injured, the bank made steady progress. In 1845 the firm divided into two separate banks, known as William Jones and Son, and Foster and Baldwin, Jones paying £5,085 to Foster for his share of the old business. Jones was later joined by William Hatton, an iron merchant, and the firm, under the name of William Jones and Son, continued to serve the town as an independent unit until 1864.

So late a development of banking was unusual, and a more typical story arises from Walsall, where, in addition to blast-furnaces and iron works, there grew up a specialized trade in saddlers' ironmongery and leather. Some activity in brass work and a small part of the lock and key trade in which Wolverhampton and Willenhall specialized were also among the town's activities. Here a local banking house, known as Forster and Sons, was born much earlier, in the last decade of the eighteenth century. Its founder, Charles Smith Forster, was characterized by the strong individualistic outlook of his district. He was chosen mayor in 1818 and again in 1828, and was elected first Member for Walsall in the reformed Parliament. By virtue of his long-established bank in Walsall (the Bilston office appears to have been abandoned before this date), he was selected to give evidence before the Committee on the Bank Act which reported in 1833. To this body he explained that he was dealing principally with the iron trade and that one-sixth of his total liabilities was in respect of notes and the remainder of deposits. He explained that he made no use whatever of the Birmingham branch of the Bank of England, and expressed in no uncertain terms his opinion that such branches were privileged rivals of the country banks, bringing

<sup>(1)</sup> See page 172.

about a decline of local note issues that was positively harmful to industry and trade in general. In support of his view he gave an interesting illustration of the strength of local bank notes: "During the time of the secession of His Majesty's Ministers (the middle of May 1832), the Bank of England notes were brought to the banking house in exchange for gold; at that time the Bank of England notes were very much inferior in credit to my own notes".

While these developments were taking place in the smaller industrial towns of the midlands, private banking had attained a strong position in Birmingham, the natural centre of the district, a town which by 1801 had a population of 74,000, to be doubled in the next thirty years. The economic growth of Birmingham, however, was somewhat different from that of the surrounding area, and a consideration of banking progress must therefore be preceded by a brief account of its industrial development. In the second half of the eighteenth century the outstanding characteristic of Birmingham's productive activities was variety. The simpler trades, such as nail-making, were migrating to the smaller towns, and Birmingham had already become a centre for work requiring a high degree of technical skill and a comparatively large proportion of labour. In consequence its list of manufactures rapidly lengthened. As an unincorporated town, Birmingham enjoyed freedom from the onerous restrictions upon trade imposed by the guilds of more ancient cities, and the period was crowded with the introduction of new manufactures and processes. Numerous metal trades, including gun-making and the production of steel "toys", buttons and jewellery were already well established, and to these were added the manufacture of japanned enamel ware and papier mâché.

By far the most important industrial leader of the time in Birmingham was Matthew Boulton, who established in 1762 his world-famed factory at Soho. During the eighteenth century the town had become a centre for the manufacture and issue of counterfeit coins, and its prominence in this illegitimate trade gave to "Brummagem ware" an evil reputation. It was the self-appointed task of Matthew Boulton, the son of a Birmingham silver stamper, to remove from the products of his town this reproach of meretricious quality. His organization for the production of every kind of metal goods was unique in conception

and unparalleled in scope, while the artistry of its products aroused admiration throughout Europe. But it was in partnership with James Watt that he reached the summit of his career. Watt, driven southward by lack of capital to develop his invention of an improved steam engine, found in Boulton a partner of enterprise and technical capacity. In the production of steam engines every sort of difficulty was encountered. Among them, the problem of obtaining castings and borings to the necessary degree of exactitude was surmounted by the steady technical progress achieved by John Wilkinson, of Bilston.

Difficulties of another sort encountered by the partnership provide clear evidence that the pace of industrial development was outstripping that of financial evolution. The rapid progress of the firm required capital resources which at times even the wealth of Boulton could not supply. The firm, already heavily indebted to local bankers, made occasional requests for support in London, sometimes with discouraging results. On one occasion, for example, Boulton approached the Bank of England for assistance in financing the development of an invention by Watt for copying letters. In a letter to his partner, conveying the dismal tidings of disappointment, he describes the Bank's directors as "foolish and rude", and goes on to exclaim: "Some of the Directors are Hogs".<sup>(1)</sup> Despite all obstacles, however, the firm grew in reputation and variety of output, and in 1797 the works of Boulton and Watt, in a town formerly despised as a source of forged half-pence, became an authorized mint. In this development the specialized services of one Joseph Gibbins were enlisted. Gibbins was closely concerned with the non-ferrous metal trades of Birmingham, and had already worked with Boulton in establishing the Assay Office, for the purpose of marking silver plate, in 1770. Now he was called upon to provide copper for the national minting, a task which led him to exploit the mineral wealth of South Wales through the Rose Copper Company at Swansea. At a later stage Gibbins is found to be taking a considerable part in the growth of banking in Birmingham and in South Wales as well.

The large Soho firm, however, was wholly exceptional in size and variety of output. The customary unit in the trades of Birmingham was a small workshop employing only five or six

<sup>(1)</sup> E. Roll: *An Early Experiment in Industrial Organisation.*

people. Trades such as gun-making were divided into as many as fifty separate processes, each performed by a highly skilled workman in his own workshop, the unfinished parts being conveyed from shop to shop. The growth of trade occurred by way of an increase in the number of small firms rather than in the size of those already in existence. For the greater part of the next hundred years this absence of large-scale enterprise, and consequent employment of comparatively small aggregations of industrial capital, continued to characterize Birmingham manufactures.

The widening variety of Birmingham's output was carried forward into the early part of the nineteenth century. A broadening demand for gas-lighting apparatus, machinery of all kinds, pumps, steam engines, and later the invention of the locomotive and the steamship, all gave an impetus to the metal manufactures of the town. The application of metals to new purposes, and inventions in the technique of metallurgy, encouraged the advance, and by 1830 Birmingham, as described by Professor G. C. Allen,<sup>(1)</sup> was established on the lines it was to follow until the last quarter of the century. It was not without good reason that the Census Report of 1831 described Warwickshire as eminent in manufactures, adding that the industries of the county "are as nothing in comparison with the activity displayed at Birmingham and its vicinity, the variety of which is such as cannot be described otherwise than in detail".

As in most of the provincial towns, so in Birmingham the private banker arose during the second half of the eighteenth century. Various trades produced their "side-line" bankers, and by 1793 there were four banking partnerships, while the number was doubled by 1804. The total of eight banking firms, though easily surpassed by the leading Scottish centres, was the highest for any provincial English town of the period, and compared with two in Manchester, three each in Liverpool and Leeds, four in Nottingham and seven each in Bristol and Exeter.<sup>(11)</sup>

The relatively large number of formations in Birmingham may be attributed in part to its wide variety of trades, each faced with particular problems. Thus examples can be found of the direct emergence of the banker from the metal craftsman. One of the most interesting is provided by the firm of Galton and Co. Samuel

<sup>(1)</sup> *The Industrial Development of Birmingham and the Black Country (1929).*

<sup>(11)</sup> T. Bailey: *A List of Country Bankers (1804).*

Galton was a gun-maker of Birmingham, carrying on the family trade begun by his grandfather in 1736. His personal participation dated from 1777, and within a few years the firm was thriving on the supply of arms to the slave trade, then at its peak. As a member of the Society of Friends, however, his business activities caused serious uneasiness to his brethren of the flesh and the spirit. In 1790 a minute was passed at the Friends' yearly meeting, calling attention to his violation of humanitarian principles. Six years later Galton was called more severely to account by a deputation which included Sampson Lloyd, of the well-known banking family, and Joseph Gibbins, later to become a banker. The gun-maker retorted in a masterly letter of defence, but could not save himself from censure. Declining to relinquish his trade, he was disowned by the Friends in 1796, though for his part he would never acknowledge that he had forfeited his membership.<sup>(1)</sup> Something of this strong individualism was transmitted to later generations of his stock, for his grandson was the well-known anthropologist Sir Francis Galton, cousin to Charles Darwin.

It may be, however, that the long struggle with old associates influenced Galton during the next few years. Possibly, too, the business achievements of his distant relatives, the Lloyds, impressed him. At all events, in 1804 he turned from gun-making to banking, establishing a triple partnership with his son, Samuel Tertius Galton, and Joseph Gibbins. The office in Steelhouse Lane became the banking house of the gun trade. The firm was joined by Paul Moon James, and from evidence given by him before a later banking inquiry<sup>(2)</sup> it is possible to obtain a glimpse of the scope of the firm's activities. James was with the firm for upwards of twenty years, and he stated that the circulation of notes, probably in the late 'twenties, was between £70,000 and £80,000, a considerable total in view of the late formation and the pressure of competition with numerous contemporary banks. The practice of the firm was to maintain a cash reserve of between one-quarter and one-third of note liabilities, a proportion believed by James to be unusually high.

For the first quarter of the nineteenth century the course of private banking in the town seems to have been comparatively uneventful. By 1810 the seven firms still in existence were all

<sup>(1)</sup> S. Lloyd: *The Lloyds of Birmingham* (1907).

<sup>(2)</sup> Second Report of the Select Committee on Banks of Issue, 1841.

strongly established, and Birmingham seems to have escaped the successions of disastrous failures which all too often were the sorry experiences of many industrial towns. Even in the stressful times around 1825 only one of the six banks then existing suspended payment. This was the house of Gibbins, Smith and Goode (formerly Smith, Gray and Cooper), which, founded in 1806, was by this time said to possess the largest business in the town. It would appear that the senior partner was Joseph Gibbins, formerly of Galton and Co. Imperilled by the failure of a large customer, a debtor for £70,000, the firm was obliged by a menacing run to close its doors. Yet the difficulty was one of obtaining immediate cash, and not of actual insolvency, and sufficient evidence is given of the ultimate stability of the bank by recording that within a short time 19s. 8d. in the £ was distributed to creditors. Shortly afterwards Gibbins, in partnership with a nephew, opened the banking house of Gibbins and Lovell.

It was at this stage that the passing of the joint stock banking Act of 1826 introduced a new element into the structure of business finance, and quite soon Birmingham began upon the achievement of its unrivalled record in the progress of indigenous joint stock banks. Early formations were not conspicuously different, except perhaps in number, from those in other parts of the country. Yet the town was to provide the setting for the early histories of two of the largest joint stock banks in the world.<sup>(1)</sup> One by one the private banks whose story has been told in the preceding pages were drawn into joint stock institutions, which, as the process of coalescence increased in strength, in their turn joined together. Eventually, all came to form part of the Midland Bank, though this advanced stage in consolidation was not reached until the twentieth century, and by that time the amalgamation movement had far outstripped the boundaries of Birmingham or even the black country.

It was natural that Birmingham, fortunate in the possession of private bankers of proved stability and long-standing connection, should be in no hurry to take full advantage of the Act of 1826. A branch of the Bank of England was established in the town in 1827, but it was not until two years later that the first local

<sup>(1)</sup> The Midland and Lloyds. Lloyds, unlike the Midland, began as a private banking firm and remained in that form until 1865, when it became a joint stock company.

joint stock bank was formed. Even then the stimulus to enterprise came from without. The Manchester and Liverpool District Bank approached Joseph Gibbins, of Gibbins and Lovell, with a suggestion that he should open a branch of their company in the town. Gibbins, however, proved to be the wrong man to approach, for he held the opinion that Birmingham was large enough to support a joint stock bank of its own, and was thus prompted to take immediate steps in that direction. In consultation with his friends he decided to convert the business of Gibbins and Lovell into a joint stock bank under the title Birmingham Banking Company, and the change was duly effected in October 1829.<sup>(1)</sup> The undertaking received the adhesion of a second private firm, for the post of manager was accepted by P. M. James, of Galton and James, and consequent upon this step the partnership relinquished business. In this way the new joint stock bank entered the sphere of local banking by well-defined paths, becoming an immediate heir to the valuable connections of two long-established private firms. Moreover, a close association with Birmingham trades was clearly to be seen in the board of directors. Charles Shaw, a prominent industrialist, was the first chairman, while several of the later directors were important in the non-ferrous metal trades. Indeed, the near relationship of the Gibbins family with the new bank suggests that in early years it was strongly linked to that section of Birmingham industry devoted to copper and allied metals.<sup>(2)</sup> With a paid-up capital of between £50,000 and £60,000, and guided by experienced hands, the Birmingham Banking Company began business in favourable circumstances as the first joint stock bank in Birmingham.

Once the new system had been tested the banking traditions of the town found vigorous expression in the establishment of joint stock banks and branches. In 1832 a second joint stock bank, the Bank of Birmingham, was founded and soon attracted a capital as large as that of its earlier rival. This further example of enterprise in local banking did not obtain notable connections with established forces in banking and industry; nevertheless a

<sup>(1)</sup> Evidence of Joseph Gibbins before the Select Committee on Joint Stock Banks, 1836.

<sup>(2)</sup> The first directors were: James Belles, William Chance, Edward Eagle, Daniel Ledsam, John Mabson, Charles Shaw, John Turner, Joseph Walker. Joseph Gibbins joined the board at a later date, and in 1836 a number of the directors of the bank founded a large new metal manufacturing company.

note issue exceeding £30,000, reached within a year, revealed that a brisk business was being developed. The bank, however, soon found competition from rival formations too keen to be faced alone, particularly as the manager, although of recognized integrity, was by no means popular. Further discouragement was encountered in the difficult years around 1836, and the failure of a large debtor delivered a blow that proved fatal.<sup>(1)</sup> In 1838 the bank sought refuge by amalgamation, the members exchanging their shares at a reduced valuation for those of the Birmingham Banking Company. In so doing, its note circulation was altogether lost, for the absorbing institution had been the first joint stock bank to forgo the right of note issue by agreement with the Bank of England,<sup>(2)</sup> a step decided upon at the time of its foundation. The intensity of competition at this period may be judged by the fact that, a year after the establishment of the Bank of Birmingham, the Commercial Bank of England, the Northern and Central Bank of England, and the National Provincial Bank of England had all established offices in Birmingham. Apparently even this rapid provision of banking facilities, which had already brought about the eclipse of one new bank, did not satisfy the enterprise of the town, and 1836 witnessed the formation of two new companies, one of which was to become the core of an institution of national scope and importance. Both the new banks were founded largely as a product of the enterprise of a Cornishman, who had migrated to Birmingham by way of London in response to calls of business.

In 1836 Charles Geach, dissatisfied with his prospects as a clerk in the Birmingham branch of the Bank of England, set to work to obtain the support of influential men for the formation of a new bank.<sup>(3)</sup> The scheme was successful, and the Birmingham Town and District Bank came into existence, but, by a curious twist of judgment and justice, Geach was not appointed manager. This unfriendly treatment aroused the indignation of a second group of business men, who, impressed by the worth and personal popularity of Geach, set to work to form a second new bank, this time publicly announcing the name of Geach as manager. So strong was Geach's influence that the Birmingham and Midland Bank opened its doors within seven weeks of the rival bank. Such was the beginning of the Midland; a small bank in a provincial

<sup>(1)</sup> The loss was repaid by the family concerned thirty years later, see page 67.

<sup>(2)</sup> See page 60 *et seq.*

<sup>(3)</sup> See biographical sketch: Charles Geach.



town, jostling in keen competition with several already established institutions, some of which incorporated the business and goodwill of private banks of long standing.

The public advertisement announcing the intention to form a new bank is reprinted below. Not only does it contrast strangely with a modern prospectus, but it differs also from contemporary announcements. The custom was to include a prolix statement as to the benefits of joint stock banking and the weaknesses of private bankers, with a concomitant eulogy upon the financial institutions of Scotland. The absence of such matter distinguished the Birmingham and Midland prospectus from those of many early banking co-partnerships, and at the same time paid tribute to the standing of those associated with the enterprise. It will be observed that the name originally chosen was different from that under which the bank opened for business, the eleventh hour change being made upon representations of undue restrictiveness implicit in the proposed title.

PROSPECTUS  
of the  
BIRMINGHAM EXCHANGE BANK

Many Gentlemen, who are of the opinion that the Public accommodation requires the establishment of another Joint Stock Bank, in the town of Birmingham, have

Resolved :—

That a Joint Stock Banking Company shall be established, to be called the Birmingham Exchange Bank, for the transaction of the general business of Bankers in Birmingham, and such other of the neighbouring towns as the Directors shall think proper, under the following conditions :

- (1) That the Capital shall be Five hundred thousand pounds, in fifty thousand Shares of £10 each.
- (2) That the allotment of shares shall be made by the Provisional Committee.
- (3) That within twenty-one days after the allotment of shares, each shareholder shall pay down a deposit of £2 per share, but no further call shall be made until after three months' notice.

- (4) That the concern shall be under the management of Directors to be chosen annually by the Shareholders, and that a general meeting be called as early as possible after the allotment of shares, for the purpose of choosing the first Directors. Every holder of one hundred shares to be eligible as a Director.
- (5) That no person shall hold fewer than ten shares, and that holders of ten shares shall have one vote, of twenty-five shares two votes, of fifty shares three votes, of one hundred shares four votes, of one hundred and fifty shares five votes, and of two hundred shares and upwards six votes.
- (6) That a proper Deed of Settlement shall be prepared under the instruction of the Directors, containing all provisions, and especially providing that, if one fourth of the Paid-up Capital over and above the Guarantee Fund shall ever be lost, the shareholders by the resolution of a Special Meeting, shall have power to dissolve the Company.

Applications for shares to be made to the Provisional Committee, under cover, to Mr. Wills, Solicitor, Cherry Street, Birmingham.

FRANCIS FINCH

*Chairman of the  
Provisional Committee.*

16th July, 1836.

At this period documents such as these were statements of general intention rather than closely considered outline schemes, a distinction borne out by the fact that within a few weeks most clauses of the prospectus had been materially altered, and even the name of the bank changed. The required funds were speedily subscribed, premises were secured at 30 Union Street, and the bank opened for business, under the title Birmingham and Midland Banking Company, on August 22, 1836.

Under the chairmanship of Robert Webb, then High Bailiff of Birmingham, the first board of directors consisted of eight prominent business men of the town.<sup>(1)</sup> The nominal capital was then fixed at £250,000, divided into shares of the unusually low denomination of £10, of which £2 was called up at the outset. The reasons for the free and widespread establishment of banks at this

<sup>(1)</sup> The other directors were: William Gammon, John Francis, Jeremiah Ridout, John Taylor, Thomas Pinches, William Lort and Thomas Bolton.

time are indicated in the report of the provisional committee, which gave place to the board of directors on the establishment of the bank. After a general reference to the success of joint stock banks, the report calls attention to the "rapidly increasing wealth, population and enterprise of the town of Birmingham, connected as it soon will be by new channels and facilities of communication with all the most important commercial and manufacturing towns of England". To the black country the building of railways gave access to a wide and varied succession of new markets, and extended almost indefinitely the possibilities for trade. In 1837 the Grand Junction line to Liverpool was opened; connection was established with London a year later, and with Derby and Gloucester in 1839. Despite this early improvement of communications, neither the Birmingham Banking Company nor the Birmingham and Midland began for a dozen years or more to extend beyond the boundaries of its home town. One explanation was that neighbouring towns were themselves forming their own banking companies, while it is not unlikely that the directors were impressed by the disastrous collapse in 1837 of the Northern and Central Bank, which included among a long list of branches an office at Birmingham. But the first reason was the more important. Many local joint stock banks were formed in the near neighbourhood of Birmingham, and an interesting example was provided by the town of Stourbridge.

By 1834 Stourbridge, where one of the earliest recorded private banks in the area was born, had already added a joint stock bank of its own to existing banking facilities. Ultimately, no doubt, the need for such a bank sprang from the demands of expanding industry in the growing town, but the immediate occasion for its formation, while supporting this point of view, does so in a somewhat unusual manner. At that time there was an important iron manufacturer in the town, James Foster by name, whose successful business grew rapidly. Until 1833 he had been a valued customer of the old private banking firm of Bate and Robins, and received their support in his industrial undertakings. Towards the end of that year, however, the friendly relationship was irreparably broken. It is said that one of the partners of the banking firm, either because the position of the bank was strained or because Foster was thought to be exceeding prudent limits in business expansion, peremptorily requested a substantial

reduction in the outstanding overdraft. Foster, although nettled at such autocratic treatment, merely called and inquired if total repayment in a week's time would satisfy the banker, and upon receiving assent left the building. A week later Stourbridge witnessed the strange spectacle of the eminent industrialist wheeling a barrow full of sovereigns<sup>(1)</sup> along the streets leading from his works to the bank of Bate and Robins ; a remarkable journey which ended with the iron manufacturer tipping his precious burden on the floor at the feet of the banker. Messrs. Bate and Robins were furious at this method of repayment, while Foster maintained his attitude of injured rectitude. In the end, the industrialist called together a few friends and established the Stourbridge and Kidderminster Banking Company.

Founded in this stormy fashion, the joint stock bank nevertheless quickly attracted sufficient support to provide a capital of £50,000, this being the sum paid up on a nominal amount of £250,000. As might be expected, James Foster<sup>(2)</sup> was the first chairman, and under his direction the bank opened for business in April 1834 at Stourbridge and three months later at Kidderminster. Within a month or two, weekly attendance had been arranged through agencies at Redditch and Bromsgrove "because of the representations of several leading manufacturers and other influential inhabitants", while in October a triumphant stroke gained for the new bank an old-established business in Warwickshire. In exchange for 1,500 shares the firm of Tomes, Chattaway and Ford, bankers since 1810 at Stratford-on-Avon, with an agency at Henley-in-Arden, relinquished business in favour of the joint stock bank, the junior partner, Mr. E. D. Ford, remaining as branch manager. Before the year had drawn to a close three more agencies had been arranged at Shipston-on-Stour, Moreton-in-Marsh and Chipping Norton, the latter managed conjointly by a firm of drapers and a seedsman.

This method of extension, differing so markedly from the stay-at-home policy of the two Birmingham banks, was dwelt upon by the directors in their report to the general meeting of shareholders in August 1835, where they explained that two of the new agencies "may almost be said to form an integral part of Stratford, inasmuch as they are connected by a Railway", while the union

<sup>(1)</sup> The wheelbarrow full of gold plays a part in a number of stories of old private banks, see page 252.

<sup>(2)</sup> With him were associated as directors John Hancocks, Robert Scott, Joseph King, H. P. Skidmore and William Orme.

with the Stratford-on-Avon bank forged " a well-connected chain, uniting the mineral and manufacturing districts of Staffordshire and east Worcestershire with others chiefly agricultural, and is calculated to afford facility in mercantile transactions and promote a beneficial reciprocity in Trade ". The reasons were sound enough, but another consideration probably weighed just as heavily in determining the distinctive policies of the three banks. The Stourbridge and Kidderminster Bank issued notes, and in quite a short time enjoyed a circulation of £30,000. At this period extension of branches was sought by early banks as a means of obtaining a widespread note issue. The two Birmingham banks on the other hand, chose not to issue notes, but sought in preference to obtain the special privileges accorded by the Bank of England to non-issuing banks.

The Bank of England had made a strong and successful effort to capture the note circulation of Birmingham, and the Birmingham Banking Company was in fact the first subject of experiment with arrangements, later to become general in a few leading towns, whereby special discount facilities were granted in return for an agreement by the local bank to refrain from issuing its own notes and to circulate Bank of England notes instead. Geach, from his experience in the Bank of England in Birmingham, was fully aware of the terms of such agreements. Accordingly the Midland Bank, only two days after its doors were opened, applied for a discount account on special terms. The application was refused on the grounds of insufficiency of paid-up capital. A fortnight later the directors of the bank interviewed representatives of the Bank of England, but were again unsuccessful ; this time it was held that, pending the report of the Parliamentary Committee then examining joint stock bank legislation and practice, it was not possible to make any arrangement. It was argued further that the demand for money and the " adverse " foreign exchanges rendered undesirable any steps which would increase the note issue. The variations in the reasons given for the refusal aggravated the apparent unfairness of withholding privileges granted to other banks of the town, and preliminary steps were taken by the directors towards arranging for the bank's own note issue. It was ascertained that notes could be supplied within a fortnight of giving an order, but a final decision was deferred.

The bank, with a persistence born of injustice and strengthened

by a certain knowledge that others were receiving preferential treatment, once more pressed its claim. Again a refusal was given, this time on the sole ground that the bank was not constituted in accordance with the principle laid down in the report of the 1836 Committee on joint stock banks. The Committee had called attention to the alleged dangers arising from wide disparities between the nominal amount of bank shares and the sum paid up thereon, and from the issue of shares of low denomination. The capital arrangements of the Midland Bank, although recording an improvement upon those of many contemporaries, nevertheless mildly offended in some respects. The nominal capital of £250,000 was divided into 25,000 shares of only £10 each, of which £5 was now paid up, and of these shares rather less than one-half were issued.

It contrasts strangely with the high moral tone of the Bank of England's reproofs that, while it declined to accord the usual facilities, it expressed willingness to discount for the Midland Bank, though only at the full market rate, to any "reasonable" extent. With this the local bank had perforce to be content for the time being, but the dispute broke out again when, early in 1837, the Bank of England suggested that the amount under discount was too high, and must be reduced. On this occasion the directors of the Midland not only passed a strongly worded minute "lamenting" the decision in view of the fact that a much larger amount was allowed to another local bank, but also communicated their opinion to the Governor of the Bank in a letter the tone of which, it is recorded, was not pleasing to the recipients. Ultimately the Midland conformed with the dictates of the Bank of England and reduced its nominal capital to £120,000 in 2,400 shares of £50 each with £25 paid up. Even so, it was not until three more months had passed that the Bank of England, in January 1838, agreed to grant discounts at the rate, then fixed at three per cent, in force for those joint stock banks which issued Bank of England notes. Thus ended an unhappy dispute which perhaps typifies the tension existing at that time between the privileged beneficiary of government patronage and the upstarts of modern *laissez-faire*.

The popularity of joint stock banks in Birmingham brought about a rapid diminution in the number and relative importance of private banks. The six banking partnerships operating in

1829 were reduced to three in the next ten years, while the number of joint stock banks grew to seven. When the Bank Charter Act was passed, in 1844, the authorized issues of the three private banks were fixed in total at about £81,000, a figure attained by a single bank, that of Galton and James, in the first quarter of the nineteenth century, despite the existence then of twice as many private banks, all with note issues. In striking comparison, the total authorized issues for the much smaller town of Stourbridge amounted to £92,000, of which £35,000 was about equally divided between the two private banks, while £57,000 was in the hands of the Stourbridge and Kidderminster Banking Company. At Walsall, C. S. Forster was granted an authorized issue of £20,000. The Birmingham joint stock banks all issued notes of the Bank of England, so that, apart from the small total just mentioned, the note circulation of the town was supplied by the Bank of England. That its size was considerable is revealed by evidence before the Committee of 1836, which showed that the outstanding Bank notes issued through the agency of the Birmingham Banking Company alone varied at that time between £150,000 and £190,000. Before long, moreover, the already small local issue disappeared, for by the end of 1865 there was not a single private bank in the town.

The welcome accorded to the new form of banking is reflected in the figures of the Midland, which, though by no means the largest of the local banks, had fully justified its foundation. Within ten years the paid-up capital of £50,000 had been increased to £90,000, of which £25,000 was attributable to transfers from the "guarantee fund", a general term describing what is now known more commonly as a "reserve fund". In 1850 a further sum of £30,000 was transferred, while up to that date an average dividend of over eight per cent had been paid. Examination of the balance sheet figures for 1850 shows some relationships which read curiously by the side of modern English bank statements. Deposit and current account balances, at £112,000, are £8,000 less than the paid-up capital. Loans and bills, amounting to £272,000, exceed the combined total of capital and credit accounts by £40,000, a difference made up in part by a loan of £33,000 from the Union Bank of London. It is perhaps surprising that the bank was so profitably conducted upon such a small proportion of deposits.

It must not be supposed that the first few years of the bank's history were passed in unbroken tranquillity; indeed, the period had been characterized by both financial and political disturbances,<sup>(1)</sup> but these are best illustrated by the experience of the Birmingham Banking Company. The absorption of the Bank of Birmingham had brought a considerable expansion of business, as well as a new head office in the excellent premises that had been erected in Bennetts Hill<sup>(2)</sup> by the unfortunate institution. Very soon the paid-up capital had grown to £200,000, and the Birmingham Banking Company was going from strength to strength. Yet even this successful undertaking was threatened by the storms of 1836-7. According to the records of a contemporary observer,<sup>(3)</sup> the bank at the height of the panic held acceptances of a Liverpool firm amounting to over £100,000, while the acceptors, lacking remittances from America, were in difficulties so extreme as to bring the possibility of their suspension very near. Moreover, the stake held by the Birmingham bank was relatively small, since an unsuccessful application by the Liverpool firm to the Bank of England for assistance requested support to the extent of over £1 million. The consequences of a failure of this magnitude at a time when the commercial world was badly strained would have reached far beyond the temporary embarrassment of the Birmingham Banking Company, and Charles Shaw, chairman of the bank, was impelled by his realization of impending disaster to adopt a course that saved the situation. He journeyed to London and interviewed the Chancellor of the Exchequer, the Governor of the Bank of England and representatives of the great banking houses, and by his vivid presentation of the seriousness of the position induced them to intervene, offering security from Birmingham to a large amount. By his energy and forcefulness a grave collapse of credit was averted, and the strength of his bank correspondingly enhanced.

Throughout these troubled years the Stourbridge and Kidderminster Bank, by contrast, was especially fortunate. In 1837 the capital was increased to £75,000 by capitalizing £25,000 of the reserve fund, then amounting to £27,500; dividends of eight per cent were paid regularly, and in August 1838 the directors

<sup>(1)</sup> See biographical sketch: Charles Geach.

<sup>(2)</sup> Now the Bennetts Hill branch of the Midland Bank.

<sup>(3)</sup> E. Edwards: *Personal Recollections of Birmingham and Birmingham Men* (1877).



announced that during the pressure they had been able to afford "liberal aid" to all deserving applicants "without converting a single security or re-discounting a single bill". So, too, the Midland came without loss through the crisis which followed so soon after its formation. Despite this success, for more than a decade no extension beyond Birmingham was undertaken—a long adolescence, due in part to changes in personnel. Until the middle of the century the Midland was identified with Geach, the general manager. In these early years the bank owed its progress, combined with solidity, in the main to his efforts and abilities, but at an unfortunately early stage in its career it lost the dynamic force of his personality,<sup>(1)</sup> and progress was slower than it might otherwise have been. When Geach retired from active management, in 1847, he was succeeded by Henry Edmunds, a man of great worth, who had been associated with the bank since its foundation, but who lacked the boldness which had characterized his predecessor. The death of Charles Geach only seven years later was doubtless a heavy blow to the bank's fortunes, for he had continued to act in an advisory capacity, and already the bank had taken the first tentative step, under his guidance, towards widening the geographical scope of its activities.

As early as 1837 the Midland, while still very small, even for a local bank, had refused an offer by the Birmingham Banking Company for amalgamation. The confidence of the directors in the prospects of independence was more than justified; from making steady progress in Birmingham the bank turned to other towns, and the business of Bate and Robins, bankers at Stourbridge, was purchased in July 1851. The economic links with Birmingham were strong, for not only did the central town absorb much of the heavy iron of Stourbridge and district for its metal trades, but it also acted as a centre for glass making. Improved methods of transport in the form of railways brought the midland towns closer to Birmingham, and at this time Stourbridge was a prosperous and busy town that provided an excellent starting point for branch expansion.

Quite apart from the particular reasons which restricted early branch expansion by the Midland to the replacement of a single private bank, there were general causes working to the same end among other banks of the district. Mention has been made of

<sup>(1)</sup> See biographical sketch : Charles Geach.

the conquest of difficulties of transport, and some indication given of the uncertain financial conditions during the period from 1836 to 1840. Two years later a sharp fall in the price of iron strained, but fortunately did not injure, some of the banks described in this chapter, while in 1844 the Bank Charter Act affected them all in varying degrees, more particularly those issuing their own notes. The Stourbridge and Kidderminster Bank adopted an unusually philosophical attitude towards the new restrictions upon note circulations, and drew attention to an aspect of the legislation quite often overlooked. "For ten years at least", said the directors at the general meeting in 1844, "the advantages of our circulation are secured without danger of opposition from new and competing banks of issue."<sup>(1)</sup> So far as the Birmingham Banking Company was concerned, losses from difficulties in the iron trade following upon 1842 reduced its reserve fund by more than one-half, but the fact that a first branch was opened at Dudley in 1843 to take the place of a private firm<sup>(2)</sup> which had fallen victim to the local dislocation shows that the Birmingham bank was not so seriously disturbed as to neglect opportunities for expansion.

Nevertheless, it is clear that circumstances were not favourable to a bold policy of branch development, more particularly as before long the district was seriously affected by the crisis of 1847. The aftermath of feverish speculation, especially in railways, was a period of dull trade and falling prices that brought many firms in the iron trade to difficult straits. It is, indeed, surprising that the banks of the district came through as well as they did. The Birmingham Banking Company paid a combined dividend and bonus of fifteen per cent annually over the period, and, while the directors read into the events of 1847 that the Bank Charter Act was "a dangerous instrument", they could not fail to congratulate the proprietors upon the prosperous condition of their bank. As might be expected, the trying period bore hardest upon the private bankers, not a few of whom suffered extinction by failure or absorption during these years. At Walsall the old-established firm of Charles Forster and Sons sold its business to the Birmingham Banking Company in July 1848, C. S. Forster, the senior partner, remaining as manager of the Walsall branch. This personal arrangement indicates one advantage derived from expansion by absorption rather than by the opening of branches,

<sup>(1)</sup> Compare page 24.

<sup>(2)</sup> Dixon and Co., who stopped payment in August 1843.

for it overcame the problem, otherwise acute, of finding suitable managers for new offices.

The town of Stourbridge also experienced a sudden extinction of private banking. In 1848 the Stourbridge and Kidderminster Bank reported that its own area had been less seriously affected than others by the crisis, and that "the command of ample resources during the pressure on the money market enabled the bank to aid its customers to the full extent promised and even beyond it". The statement was supported by the balance sheet figures, for in 1848, with a capital amounting to £100,000, deposits of £60,000 and a note circulation of £16,000, loans to customers by way of bills and overdrafts amounted to £170,000! The following year losses were encountered in a large chemical works, and the iron trade of the town was stated to be very depressed. Nor was the position helped by the circulation of a printed letter attacking the manager of the joint stock bank on grounds subsequently proved to be wholly fallacious. These storms were satisfactorily weathered by the sturdy joint stock bank, but private banks of the district were not so fortunate. Early in 1851 the banks of Ruffords and Wragge at Stourbridge and of Rufford, Biggs and Co. at Bromsgrove suspended payment, occurrences which brought the Stourbridge and Kidderminster Bank "a very large and valuable accession of customers at both places". Again, as has been recorded, the old banking house of Bate and Robins, possibly warned by the fate of its banking townsmen, decided to give up an historic business at Stourbridge, and became the first branch of the Birmingham and Midland Bank. This beginning in geographical expansion by the Midland was not speedily followed up. It was not until 1862 that a second purchase, similar in kind to the first, was carried through at Bewdley, the business and premises of Nicholls, Baker and Crane, bankers from 1782, being bought for £5,000—an index to the limited business activities of a declining town. It is recorded that the total debit balances owing to the private bank amounted to just over £50,000, and exceeded the credit balances by about £5,000.

As far as can be judged from directorial announcements, the crisis of 1857 had but little effect upon the banks here considered. The books of the Midland contain no mention of any strain and record no loss, while the Birmingham Banking Company paid a

dividend and bonus together reaching twenty per cent. The Stourbridge and Kidderminster Bank alone showed signs of distress. Two years earlier the directors had complained of "a most pernicious system . . . in the Iron districts of Staffordshire of effecting large mercantile transactions by means of accommodation bills", a system which had continued for some years and led to numerous failures. The failure of the Wolverhampton and Staffordshire Bank induced the directors, in 1857, to take the precaution of strengthening resources to the extent of £20,000 by sending bills to London, an unusual step for this particular bank, since only three months earlier the directors had boasted that it "never re-discounts and the fact is known that it does not part with its customers' bills save for collection". Then, in 1858, it was discovered that the Kidderminster manager had been guilty of a long-continued falsification of entries which had misled the directors and concealed losses amounting to £50,000. Fortunately the reserves of the bank were sufficient to meet the deficiency without encroaching upon the capital, and, after changes in the management both at Stourbridge and Kidderminster, the progress of the bank was quickly resumed.

Despite surface appearance, however, one of the largest of the local banks had suffered far more seriously than was revealed at the time. Early in 1861 the Birmingham Banking Company admitted that losses at the Dudley branch arising out of the failure of an iron firm amounted to about £60,000. At a later date it was shown that many of these losses had been incurred during the crisis period, and that even the large total quoted was a considerable understatement of the actual amount of bad debts. In fact the injury then sustained was so grave that, although seemingly quickly healed by drawing £50,000 from a reserve fund of double that amount, it had ultimately a dismal conclusion. Yet there was no hint of impending disaster for the next five years; on the contrary, there was every appearance of a resumption of the prosperous career which the bank had enjoyed up to 1857. In 1862 a large debt due to the old Bank of Birmingham, a debt to which the absorbing bank's claim had long since been extinguished in its books, was repaid by a conscientious descendant of the original debtor, the amount being distributed as a bonus upon the shares. Two years later a dividend and bonus of twenty per cent in all was paid,

while it was announced that the Dudley bad debt had been cleared off by the appropriation of a further £12,000 from profits. New shares were issued and eagerly subscribed at a high premium, and a branch was opened at Wednesbury. As a final indication of confident extension, the very old-established business of Little and Woodcock at Coventry was purchased in November 1865.<sup>(1)</sup>

Although Birmingham escaped some of the worst evils of early private banking, it was not so fortunate in its formative experience of joint stock banking. Indeed, possibly by reason of the number of joint stock banks endeavouring to obtain a footing, the town appears to have encountered rather more than its fair share of banking failures. The four years following the crisis of 1836 had seen the disappearance of three joint stock banks, but all were of recent formation and by no means firmly entrenched. These were but small affairs in comparison with the suspension in 1865 of the private bank of Attwood, Spooner and Co., an event so unexpected that it became necessary to call upon the police to preserve order. The firm had held an honoured position in the town, transacting a large share of its business for more than seventy years, and its failure caused widespread and acute distress. Yet one bank's failure is sometimes another's gain. Although an offer made by the Midland for the good part of the business was declined, several accounts of the defunct private firm were obtained. The Attwood failure was by no means the end of the disturbance; indeed, there was worse in store for the unfortunate citizens of Birmingham. Fifteen months later, in the crisis of 1866, the Birmingham Banking Company suspended payment with liabilities of one-and-three-quarter millions of pounds. Not a breath of suspicion had warned the town, and in the very week which culminated in the tragic Saturday of July 14 the shares of the bank were being dealt in at a flattering premium. "Owing to gross past mismanagement recently discovered" ran the directors' notification to shareholders, the bank had "sustained heavy losses, and a large amount of capital had been locked up in securities that for a time could not be realised". This second misfortune, following so closely upon the failure of Attwood's bank, was "a blow", in the words of a contemporary writer,<sup>(2)</sup> "enough to break down all faith in banking

<sup>(1)</sup> The history of banking in Coventry is discussed in chapter III.

<sup>(2)</sup> *Bankers' Magazine*, 1866, page 1177.

institutions of any kind". Truly the condition of Birmingham must have reflected, perhaps in even more sombre colours, the distress in London resulting from the Overend, Gurney suspension. Nor were the revelations of the investigation committee set up by the shareholders calculated to inspire a restoration of confidence. The bad debts at Dudley were shown to have been £146,000, and those at the Birmingham head office nearly £250,000. There were instances of large loans to directors, while the late manager owed the bank £76,000. It was soon evident that the reserve fund and capital, together amounting to £455,000, had been dissipated, and that there was still a large deficit to be made up. Ultimately the creditors were paid in full, but only at the expense of the proprietors, who not only lost the whole of their capital, but were required to meet calls of £9 for each of the 28,000 shares outstanding.

It might perhaps be thought that the shareholders should have been warned by the events of five years earlier, more particularly as only in 1865 a law case conducted by the bank showed serious faults in the management. It then transpired that the manager had accepted the business of a plausible merchant of only three months' standing in Birmingham and granted a discount account for £5,000 without making any of the usual trade inquiries. The credit was immediately drawn upon at the rate of £250 per day, and not until the debt had reached £3,000 was it discovered that the bills were all "kites" and the so-called merchant a swindler. But this patent evidence of lax management was effectively concealed by the roseate reports of the directors, while the purchase of the private bank in Coventry proved sufficient to distract attention from ominous revelations. Following the closure a provisional committee was formed under the chairmanship of the mayor of Birmingham. Confidence was ensured by collecting a strong board of directors, presided over by the benevolent industrialist of Birmingham, Josiah Mason, who in this instance forsook his great reluctance to accept public office in order to carry through a duty that few were equipped to fulfil. Registered with limited liability under the Act of 1862, the Birmingham Banking Company re-opened for business in August 1866, and a year later reported that the capital was £83,000 and deposits £416,000.

These difficult 'sixties saw also the failure of a curious and short-lived banking company, the European Bank Limited, with

branches in London, Birmingham, Dublin, Paris, Marseilles, Amsterdam and Rotterdam. The connection of this institution with Birmingham was established only a year before its collapse, in 1866, and arose by way of an unsuccessful local company. Following upon the permissive extension of limited liability to banking companies, there was promoted at the close of 1862 the London Birmingham and South Staffordshire Banking Company Limited, with a nominal capital of £1 million. The declared object of the new company was to provide additional banking facilities, said to be of "great necessity" to Birmingham. In fact only a small amount of capital was subscribed, and even the extraordinarily high brokerage of 20 per cent paid upon a second issue of shares failed to attract adequate funds. For rather less than two years the bank struggled on with insufficient capital, only to encounter the unprofitable conditions of 1864. Faced with a small net loss for the year, it determined to relinquish business in favour of a larger institution, and accepted an offer for amalgamation with the European Bank Limited. Its paid-up capital had reached only £120,000, deposits £206,000, and loans and bills £280,000—substantial sums for a bank of such early age, but far too small for so grandiose a project as the promoters had put forward.

The European Bank Limited was an ambitious product of the banking boom which followed the legislation of 1862 and, like many of its contemporaries, it collapsed following a slight run in 1866.<sup>(1)</sup> The liquidator's investigation revealed heavy frozen loans to a French land company, but he was nevertheless of opinion that all claims would be met, and a part of the capital refunded to shareholders. At the time of the suspension, liabilities to the public amounted to about £2½ millions, but of this only a small sum was due in Birmingham. The brief career enjoyed by the local branch, first as representing the London Birmingham and South Staffordshire Bank, and later the European Bank, was not widely noticed, for its clientèle was by no means numerous. Indeed, the office had come to be known as the "clean bank" from the spotless whiteness of the front door-step, which, flawless in the early morning, was rarely sullied by passing feet. The name remained until the premises and business were purchased from the liquidator by the Midland Bank in 1866.

<sup>(1)</sup> See pages 32 and 298.

Throughout all this turmoil the Midland was undisturbed. No large losses imperilled its safety, and dividends were never less than fifteen per cent. The collapse of other banks in the town naturally brought increasing business to survivors, and the Midland received a fair share from this source as well as from the flourishing condition of many of the local industries. In August 1866 the directors explained that "the business of the Bank has increased so much that, although the present premises were enlarged two years ago, there is not sufficient accommodation for the proper working of the establishment", and that therefore a site had been acquired in New Street upon which building would begin shortly. There was little wrong with the trades of Birmingham. The mishaps in banking, with their serious consequences, arose from bad management within the few institutions concerned, and threw into greater prominence the safety of the remaining banks of the town. The accession of new business brought the deposits of the Midland up to about £500,000 by December 1866, but a view of the predominance of the old Birmingham Banking Company is to be seen by noting that this total was less than one-third of the figure for the failed bank at the time of its suspension. The total may also be compared with the deposits of the Stourbridge and Kidderminster Bank, then amounting to £600,000, a figure which showed that that institution had gained strength considerably. In addition, the Stourbridge bank, having overcome the setback of a few years earlier, was now engaged upon an energetic policy of branch expansion. A new office was opened at Worcester in 1864 to "establish a convenient chain of communication between the Head Office at Stourbridge and the company's branches in Warwickshire, Oxfordshire and Gloucestershire", while a branch placed at Brierley Hill in the same year in the neighbourhood of a large glass works later received a "considerable accession of business" from the failure of the old Birmingham Banking Company. Two more branches were opened in 1866, and the directors stated that no losses had resulted from the crisis.

The growing strength of these early banks reflected continued economic development in the midlands. Encouraged by railway building, sanitation acts, improved mining equipment, increasing use of machinery and a generally rising standard of life, the Birmingham trades had flourished in the first three-quarters of the



century, and worked up to a peak of prosperity in 1870-75. To the existing metal, glass and leather manufactures had been added about this time a number of food and drink trades, while activity in gun-making accompanied the wars in America and on the continent.

Underlying this appearance of stable prosperity, however, were indications of great changes. Throughout the black country hand-wrought nail-making continued to decline in the face of competition from machine-cut nails. On the whole, Birmingham still retained a small-scale type of organization, of which the gun trade, with its highly skilled workmanship and numerous divisions, represented an advanced development. It was the gun trade that gave early warning of coming events, for the skilled occupation of small groups of workmen was transformed in the 'sixties into the semi-skilled employment of workers in large factories. In other directions changes just as pronounced were taking place. The stamp-press was more widely applied, and large-scale works were becoming more frequent. Most significant of all, the iron manufacture of south Staffordshire, which had now reached its peak, was shortly to enter upon a decline. This last was in part the consequence of the experiments of Dr. Siemens at Handsworth, Birmingham, which resulted in the successful adoption of the open-hearth method of steel-making, the first large-scale plant being set up in South Wales.<sup>(1)</sup>

Nevertheless, in 1870 Birmingham and the surrounding towns held a foremost position in the hardware and small metal trades, and constituted one of the chief iron-producing districts of the country. Under the stimulus of rising prices during the Franco-Prussian war the hollow-ware, bedstead, pen, wire, brass, screw and chain trades all expanded. New factories were set up for the manufacture of armaments, the output of pig-iron increased, and a general extension of coal-mining took place. The number and size of great integrated firms increased in the iron centres. But the reaction from the phase of almost violent prosperity was correspondingly severe, and the slump ushered in a decline from which some trades were never to recover. The depletion of local supplies of raw materials, together with the active competition of Bessemer and open-hearth steel from other centres of production, combined to bring about a phase of stagnation illustrated by a

<sup>(1)</sup> See chapter III.

fall from 11 to 4 per cent in the black country's proportion of Britain's pig-iron output during the period 1871-87. Towns like Wednesbury and Bilston showed an arrested growth, and even a decline, of population which contrasted with the general upward trend. In a large number of important markets steel was ousting wrought-iron, and was forcing its way, as in shipbuilding, into new fields of employment. In some respects it may be said, too, that Birmingham and district shared in an acute degree a depression felt all over England.

The specialization of trades during this period finds curious reflections in banking records. In 1862, for example, the Gun-Makers' Association complained to the Midland Bank that a member of its staff was engaged in the manufacture of guns, a combination of functions which they found "very objectionable". Investigation showed the complaint to be well founded, and the offending officer was requested by his superiors to refrain from further participation in the trade. The directors of the bank expressed surprise at the discovery, but this seems a little forced, for it was by no means unusual for bank clerks, even at this late period, to add a regular supplement from some outside trading activity to the earnings of their daily occupation.<sup>(1)</sup> This is indicated by the fact that in March 1863 the Stourbridge and Kidderminster Banking Company issued a regulation forbidding officials to carry on any other business, except that of insurance agency. The order was followed by a crop of letters from different managers pointing out that for several years past they had conducted various subsidiary undertakings, ranging from the sale of fertilizers to share-broking, and requesting compensation for loss of a supplementary source of income. The directors evidently considered this point of view a reasonable one, for they replied that a few months would be allowed to dispose of stocks on hand, after which salaries would be increased to make up for individual losses. The Midland, too, taking to heart the complaint from the gun trade, passed a minute forbidding clerks in the service of the bank to engage in any other business.

The era of prosperity and the subsequent slump took effect in the figures of the Midland Bank. Net profits in 1862 were £35,000; fifteen years later they had doubled; but by 1887 a steady fall had brought them as low as £51,000 before the trend was set once

<sup>(1)</sup> A number of examples will be found in succeeding chapters.

again in an upward direction. The dividend, starting from 16 per cent in 1862, reached 22 per cent in 1877, only to fall back to the earlier figure ten years later. Further evidence of the effects of the slump is provided in the first published balance sheet, for 1879, which records that bad debts were written off to the amount of £60,000 from the reserve fund, or guarantee fund, then fortunately standing as high as £270,000. In contrast, deposit figures showed but small divergences from a general upward trend, which carried a total of less than £400,000 in 1862 to more than £2½ millions in 1887. This tendency was due in part, however, to a policy of restrained expansion followed during these years.

So, too, the other banks concerned in this study felt the surges in the economic life of the time and the district. The re-formed Birmingham Banking Company Limited so far recovered its position that in 1872, with deposits exceeding £1 million, it was able to issue new capital at a high premium. By 1879 dividend and bonus combined amounted to twenty per cent, but here again profits fell away after 1883, dividends declining to fifteen per cent and then to twelve-and-a-half per cent. As with the Midland, deposit figures showed a fairly steady rise, but once more this was due in part to the progressive policy of the board. At this time the Birmingham Banking Company took a considerable step forward. In 1879, with a confidence born of thirteen years of new life, it approached the Stourbridge and Kidderminster Banking Company with a view to amalgamation.

The Stourbridge and Kidderminster had observed a policy of extreme caution during the period of expanding trade. Thus in 1872, when the reserve amounted to £50,000, a "Guarantee Fund No. 2" was established "to strengthen the position of the Bank against a period of depression, distrust and probably panic which they [the directors] believe will succeed the existing feverish and inflated condition of the coal and iron trades of the district". The profitableness of those years of active trade is to be seen in dividend payments by the local joint stock bank, which rose from twelve-and-a-half to twenty per cent between 1866 and 1871 and did not fall below the higher figure for the remaining years of its separate existence. So, too, the correctness of the directors' forecast was borne out by the experience of the next few years, for after 1873 the tide of local business activity turned to ebb, bringing out many observations from the bank as to the depressed

and stagnant condition of the coal and iron trades. During these years the Stourbridge bank not only paid a regular dividend of twenty per cent, but also increased its published reserve funds to £118,000, or £18,000 more than the paid-up capital, while deposits remained at just over a million. In spite of this strong position, the bank was beginning to feel the limitations of its localized sphere of action. Although possessing seven branches and three agencies, it had no direct link with Birmingham, now an all-important centre for the industries of the midlands. Moreover, the resources were insufficient for the demands of local industries; thus in 1878, when the capital was £100,000, reserve funds £110,000 and deposits £1,250,000, loans and bills alone amounted to £1,259,000, and this general position had lasted for at least ten years. A final element weighing the scale towards amalgamation was the crisis of 1878. Though this did not affect the midlands so much as other parts of the country, nevertheless the consequent general adoption of "reserved limited liability" in bank constitutions brought pressure to bear upon all unlimited liability banks, such as the Stourbridge bank, and they were obliged to make a choice between a low market price for their shares or registration as limited liability companies. Some change was imperative. For these reasons the Stourbridge and Kidderminster Banking Company was persuaded to look favourably upon the overtures of the Birmingham Banking Company Limited, and after three months of negotiation an amalgamation was carried through in January 1880.<sup>(1)</sup> The enlarged Birmingham Banking Company Limited then showed in its first balance sheet a paid-up capital of £286,000 and a reserve fund of £312,000, while deposits amounted to £2,296,000.

Birmingham had been quick to adopt the form of limited liability in banking, a process that derived stimulus from the conversion of Lloyds Bank from a private firm to a limited company in 1865. The movement brought about the disappearance of private firms in other towns of the area whose early history has been discussed. At Bilston the firm of William

<sup>(1)</sup> The terms were: two Birmingham Banking Company shares (of £50, with £5 paid up) or a cash payment of £30 for one Stourbridge and Kidderminster Bank share (of £25, with £10 paid up). In addition, surplus assets of the Stourbridge company amounting to £25,000 and of the Birmingham company amounting to £32,000 were distributed partly as a cash bonus upon shares, partly as an issue of free shares in the ratio of one for every ten held in the combined bank, and partly to the new reserve fund.

Jones and Son formed the basis of a new limited liability bank, the Staffordshire Joint Stock Bank Limited, which began business early in 1864. The prospectus pointed out that, in spite of the advance of industry and population in the town, there had been no addition to the banking facilities for over twenty-five years. A strong board of directors was made up of prominent representatives of the local coal and iron trades, including W. E. Jones, the sole surviving partner of the old private bank. The description of the capital arrangements, announcing that the amount would be £1 million in £100 shares, bore a curious explanatory phrase that has every appearance of fore-shadowing a type of share later to become general.<sup>(1)</sup> Upon the shares of £100 each, the notice stated, "£25 per share only can be called by the directors, the remainder forming a Reserved fund".

Immediately upon establishment the bank completed the purchase of the business of William Jones and Son, of Bilston, paying £9,000 for a goodwill created during forty years of private banking, and taking over William Hatton to be manager of the joint stock bank. A few days later a private bank in Walsall, that of Duignan and Son, was acquired for £2,250. Henry and William Henry Duignan were solicitors who had expanded their profession to include that of private banking in the manner frequently encountered in Cumberland,<sup>(11)</sup> becoming particularly active after Forster's bank became a branch of the Birmingham Banking Company in 1848. Their venture into new fields of enterprise was successful for several years, but at this stage there was little doubt that the day of private banks was passing, and the opportunity of disposing of the banking side of their business was probably a welcome one. Strongly established upon the business of these two private banks, the Staffordshire Joint Stock Bank Limited was firmly set on the road to success. The balance sheet for 1865 showed that with a paid-up capital of £130,000 the bank held deposits amounting to £410,000. Nevertheless, despite this early success, it did not long survive the Stourbridge and Kidderminster Banking Company. A small but profitable business was built up during the years of good trade, and by 1877 deposits had reached £671,000, and dividends of ten per cent had become the rule. In 1876 the head office had been trans-

<sup>(1)</sup> See page 34.

<sup>(11)</sup> See chapter IV.

ferred to new premises at Wolverhampton, but only for a brief stay; a year later it was again moved, this time to New Street, Birmingham. The long depression took heavy toll of the local bank's profits, and in 1879 the directors declared that a careful survey of the position led them to recommend a transfer of £28,500 from the reserve fund, then standing at £78,500, to provide for all contingencies and bad debts. This was but the beginning of a series of losses for the bank, mainly from failures among iron works and collieries, which in 1884 brought the bad and doubtful debt account up to £172,000, approximately equal to the paid-up capital. In the hope of a turn for the better the position was carefully concealed from the shareholders, the directors continuing to recommend a dividend of ten per cent and recording that full provision had been made for bad and doubtful debts. To appease the growing uneasiness of the auditors, the directors signed personal guarantees amounting to £25,000, covering some of the doubtful assets. Next a bold bid for recovery was made, in 1887, when, in circumstances described in a later chapter,<sup>(1)</sup> the business of the failed firm of Greenway, Smith and Greenway, of Warwick and Leamington, was taken over. But even these endeavours could only defer eventual disclosure, for the bad debt total was increasing, and it was inevitable that sooner or later the directors would have to take the shareholders into their confidence. Matters were brought to a head by a sharp quarrel between the general manager and the directors, which threatened to end in litigation and almost certain exposure of the true position of the bank. In such unfavourable circumstances the directors still sought to avoid the full consequences of their policy; they arranged a hurried sale of their bank to the Birmingham Banking Company in January 1889.

The nature of the transaction was unusual because there was no time to arrange precise terms. Although described as an "amalgamation", it was in fact an out and out sale of the business and premises of the Staffordshire Joint Stock Bank Limited for a price to be ascertained by subsequent valuation. Ultimately £74,375 was paid for the goodwill by the Birmingham bank, and even then a deficiency of £78,000 remained on the capital of £175,000, reducing the receipts of the unfortunate shareholders by nearly one-half of their original investments. But the "good" business was

<sup>(1)</sup> See chapter III.

sound enough, with a connection expressed in deposits amounting to nearly £1 million, and it is probable that the course taken was the best available out of a difficult situation. From the point of view of the Birmingham Banking Company the transaction was welcome, for it brought a notable addition of strength in the midlands at a reasonable price; but the bank was looking further afield, for a few months later the small private firm of Cooper, Purton and Sons, established at Bridgnorth, in Shropshire, in 1817, was taken over. Far more important, an amalgamation was arranged with the Royal Exchange Bank Limited, of London, a step of special significance since it formed a part of the process of direct association of London with the provinces in banking.

Meanwhile, the Midland Bank had also begun a policy of expansion. A branch had been opened at Wednesbury in 1877, but not until the second vital change of personnel did the policy of vigorous advancement reassert itself. The bank had become strongly entrenched under the conservative management of Henry Edmunds, who after thirteen years' service as manager was elected to the board in 1867 as managing director and remained as an ordinary director for five years from 1875. In 1869 the new premises were ready to accommodate the growing business of the bank, and the head office was transferred from Union Street to an imposing building in New Street. It is characteristic of Edmunds that he strongly disapproved of the change of site, and more particularly of the erection of what he regarded as a costly and elaborate set of offices. Yet within six years, while he was still a member of the board, pressure of business again required added accommodation, and it was necessary to extend the new building along an adjoining site in Stephenson Street. Thus came into being the New Street office of the Midland Bank as it exists today.

During the next few years the board was joined by men of capacity combined with great energy. Notable among them were John Dent Goodman, who continued the long association of the bank with the lighter metal trades, and Arthur Keen, representative of the rapidly growing screw, nut and bolt industry. At this time, too, a change was made in methods of administration. It had been usual for each director to occupy the chair for one year in rotation. In 1880, however, the bank, which had been

registered as an unlimited company in 1873, conferred the benefits, of limited liability on its shareholders, and from that time—probably more by coincidence than design—continuity in direction was the rule. John Dent Goodman was elected chairman in 1881, and remained in that office for seventeen years. In the face of considerable opposition he succeeded, in 1882, in persuading the directors to appoint from their number a committee to consider a proposal for branch extension. The strength of his judgment and the open-mindedness of his colleagues are shown by the fact that the committee reported favourably, and almost immediately a beginning was made in suburban districts. In 1883-4 four branches were established on the outskirts of the town, the office at Small Heath owing its inception to a petition of local tradesmen. Perhaps of greater importance in the general process of intensive branch development was the purchase of two small Birmingham banks.

One of these, the Union Bank of Birmingham Limited, had been established in 1878, at the height of the boom, but managed to survive only five years of the succeeding depression. Of the nominal capital of £1 million in shares of £20, 20,000 shares only were issued, with £5 paid up, £5 uncalled and £10 "reserved", although the excellent reception of the project was shown by public applications exceeding four times the number of shares allotted. The business so well begun soon showed promise of swift development, and after two years working, during which dividends of five per cent had been paid, deposits were nearly £300,000. Losses, inevitably associated with the trading conditions of the time, halved the small reserve fund during the following year, but this minor setback the bank seemed well able to surmount, for a growing business led the directors to consider an increase of capital. The depressed condition of many of the trades of the black country, however, convinced them that it was unwise to press forward too rapidly, and subsequent events changed the whole position, for the slackness of trade was found to be not the only, nor even the principal, evil which had to be faced. In 1883 it was discovered that the manager had been fraudulently converting large sums of bank money to his own use. Moreover, unhappily for the directors, the culprit, sensing trouble at an early stage, escaped arrest by fleeing to America, where his subsequent career escaped the attention of all would-be observers in the homeland. When news of the defalcations



spread abroad some of the local papers seized upon a chance to pillory the unfortunate bank directors, and there was every prospect of a "run" by depositors. The Union Bank of Birmingham approached the Bank of England through the local agent for assistance, but while negotiations were pending the dangerous position was eased by a prompt offer of help from the Midland. This timely act led to negotiations, conducted by J. D. Goodman, for the purchase of the business, and as a result about £400,000 was added to the deposits of the Midland.<sup>(1)</sup>

Several years later another small bank was brought into the growing organization. The City of Birmingham Bank Limited was formed as late as 1897, and appears to have been inspired by an attempted revival of the old preference of a local bank for local business. It was established, according to the prospectus, because "the amalgamation of local banking during recent years has so reduced the number of banking institutions in the City of Birmingham as to afford a favourable opportunity, as well as ample scope, for the establishment of another local bank". The promoters pointed out, moreover, that only two banks now had their head offices in Birmingham. The shares were of £15 each with £2 paid up, and 50,000 were subscribed, giving a paid-up capital of £100,000. The first year was reported as one of "satisfactory progress", with deposits exceeding £240,000. Almost immediately, however, the new bank found its position strained, and the directors, after a fairly considerable loss, realised to the full the difficulties of successfully competing against large and long-established institutions. Accordingly, early in 1899 negotiations were entered into and completed for amalgamation with the Midland.<sup>(2)</sup>

The absorption carries the record of the Midland several years in advance of the stage reached in this chapter, and it is recorded here only because the bank concerned was exclusively a Birmingham institution. The Midland during the 'eighties had pursued a modest policy of branch expansion, mainly in the area already covered. The establishment of branches at Erdington and Walsall during 1888 made the total number of offices thirteen, of which seven were in Birmingham itself. Throughout the half-century of

<sup>(1)</sup> The terms were: one Midland share (of £60, with £12 10s. paid up) for eight Union Bank shares (of £20, with £5 paid up). The Union Bank directors guaranteed the Midland against any loss due to defalcations over and above £15,000, which was allowed for in the agreement.

<sup>(2)</sup> The Midland paid £120,000 for the undertaking.

its existence the bank had been moderately successful. A measure of the profitableness of the business is given by the fact that within that period no less than £150,000 was added to paid-up capital out of accumulated profits. Since 1857 the annual rate of dividend had never fallen below fifteen per cent, while rates as high as twenty per cent were paid for a decade. By 1888 the reserve fund reached £230,000. Nevertheless, the bank was still essentially a small local institution, one of four surviving indigenous joint stock banks in Birmingham, and, as already recorded, profits had shown a downward tendency in the ten years to 1887. With deposits of about £3 millions and paid-up capital of £334,000, the Midland was about the same size as the Birmingham Banking Company, but at that time both were overshadowed in the town itself by the tremendous expansion of Lloyds Bank, and throughout the country there were many institutions, such as the North and South Wales Bank<sup>(1)</sup> and the Yorkshire Banking Company,<sup>(2)</sup> larger in size and stronger in influence.

By the opening of the last decade of the nineteenth century the effects of the depression had worked themselves out in many trades, and the early stages of revival had supervened. New industries, such as the manufacture of bicycles, had arisen, and some of the older ones had further expanded, so that the population of Birmingham by 1891 had surpassed half-a-million, more than six times the figure for the beginning of the century. The concentration of midland industrial processes into large organizations continued during the last quarter of the century, and Birmingham, still mainly concerned with highly finished manufactures as opposed to "heavy" work, came definitely under the influence of the general trend. So it is that in these closing decades of the nineteenth century the banks of the town were led by example and commercial need to widen their scope. The Midland, under the forceful chairmanship of John Dent Goodman, and invigorated by the arrival of Edward Holden in 1881,<sup>(3)</sup> launched the programme of rapid extension which within a generation converted a small provincial bank into a great country-wide undertaking.

<sup>(1)</sup> See chapter VI.

<sup>(2)</sup> See chapter VII.

<sup>(3)</sup> See biographical sketch : Edward Holden.

## APPENDIX TO CHAPTER II

## EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

Name of bank	Capital paid up	(£000 omitted)			Deposits	Advances	Bills
		Reserve fund	Notes in circulation				
<b>BIRMINGHAM AND MIDLAND BANK</b>							
1850 ...	120	18	nil	112	34	239	
1860 ...	165	120	nil	305	14	508	
1870 ...	275	218	nil	712	781		
1880 ...	300	210	nil	2,015	1,327	619	
<b>BIRMINGHAM BANKING COMPANY</b>							
1850 ...	200	70	nil	?	?	?	
1860 ...	200	50	nil	?	?	?	
1870 ...	109	40	nil	839	303	529	
1880 ...	286	312	nil	2,296	1,627	747	
<b>CITY OF BIRMINGHAM BANK</b>							
1898 ...	100	nil	nil	245	173	44	
<b>STAFFORDSHIRE JOINT STOCK BANK</b>							
1870 ...	174	35	nil	407	271	317	
1880 ...	175	40	nil	685	718		
<b>STOURBRIDGE AND KIDDERMINSTER BANKING COMPANY</b>							
1840 ...	75	13	57*	54	65	66	
1850 ...	100	1	55	85	90	86	
1860 ...	100	nil	54	227	70	149	
1870 ...	100	50	47	741	530	235	
<b>UNION BANK OF BIRMINGHAM</b>							
1880 ...	105	5	nil	285	152	167	

\* Authorized circulation under Act of 1844

### CHAPTER III

## EXTENSIONS FROM BIRMINGHAM

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In 1889 the Birmingham and Midland Bank absorbed the Coventry Union Banking Company and the Leamington Priors and Warwickshire Bank, and a year later the Derby Commercial Bank was taken over. Much earlier, the Metropolitan and Birmingham Bank (formerly the Birmingham Banking Company) had entered Coventry in 1865 by absorbing the private firm of Little and Woodcock, and later it amalgamated with the Stourbridge and Kidderminster Banking Company and the Staffordshire Joint Stock Bank. Next, the Metropolitan and Birmingham Bank sought representation farther afield, for, having already entered London, it arranged amalgamations with two banks operating principally in South Wales, the South Wales Union Bank, absorbed in 1892, and the National Bank of Wales, taken over a year later.

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THE process of geographical expansion of banking units was by no means orderly in the sense that amalgamations were planned to achieve symmetrical form. Yet the earlier amalgamations quite naturally took place between banks in neighbouring towns or in places closely affiliated by economic ties. Of these two groups the histories of the Midland Bank and the Birmingham Banking Company provide striking examples, their first steps being into the near surroundings of Birmingham itself, as may be seen from the chart on page 44, as well as the more distant but intimately associated area of South Wales.

While it is difficult to over-emphasize the part played by metal manufacture in the economic development of the midlands, yet there were towns within easy reach of the black country where the supremacy of the principal trade was for a long period challenged by other industries. In Coventry, Nuneaton and Derby, particularly, the struggle between loom and forge occupied the greater part of the nineteenth century, and it was not until the last decade that the victory of mining and metallurgy was for the time being assured. Throughout these years of divergent economic development the towns naturally tended to preserve their individual banking arrangements. When, however, the textile towns turned to metallurgical industries they became one with Birmingham and its nearer neighbours; it may be said of Coventry, for example, that the course of industrial development

in the last quarter of the nineteenth century rendered it an integral part of the midlands in an economic as well as a geographical sense.<sup>(1)</sup> This ancient city, rich in political history and legend, had also by the early nineteenth century a long industrial story, for in mediaeval times it was the centre of a variety of important trades and industries. These later tended to move away under pressure of competition from unincorporated towns; but by the second half of the eighteenth century, thanks to the development of ribbon-weaving and watch- and clock-making, Coventry had been restored to a position of industrial importance, which was increased by special government measures designed to assist the manufacture of silk. It was just at this stage that an early provincial banking house was established in Coventry.

In 1762 Thomas Little and John Lowke entered into partnership, possibly to meet the growing financial needs of the ribbon manufacturers of Coventry. It is significant that banking arose in this city three years before the date of the first bank to be established in Birmingham. Of the date there is no question. It is true that the quiet working of finance was so little noticed in many towns that the precise birth dates of early private banks are often unknown, and can rarely be stated with precision. From this general uncertainty the city of Coventry is in some measure exempt, for possibly unique evidence is provided by a tablet, appropriately placed in the Mercers' Chapel, in Coventry Cathedral. The epitaph is worded as follows:—

Here  
lie the remains of  
**LITTLE, LOWKE & CO.**  
who under that Firm in  
1762  
commenced the Banking  
business in this City  
**JOHN LOWKE**  
obt. 23 Jan 1776 aet. 82  
**THOMAS LITTLE**  
obt. 14 Oct 1790 aet. 57

<sup>(1)</sup> G. C. Allen: *The Industrial Development of Birmingham and the Black Country* (1929), p. 302.

So well-established was the undertaking, and so wisely conducted, that it weathered the difficulties and crises that troubled the financial world during the succeeding one hundred years. By the Charter Act of 1844 the firm, then known as Little and Woodcock, was accorded an authorized note issue of £12,045, and it continued to serve the commerce and industry of the city for another twenty-one years, until absorbed by the Birmingham Banking Company.

During the third decade of the nineteenth century the silk manufacture of Coventry experienced marked expansion under the stimulus of cheaper raw material and technical invention, and the buoyancy of trade was soon to result in a demand for further banking facilities. It was natural that they should be provided, in Coventry just as in Birmingham, by the new method of joint stock formations, and the prolific year 1836 witnessed the establishment of two joint stock banks in the city. The prosperity of the time is indicated in the prospectus of the second of these foundations, the Coventry Union Banking Company, where it was stated that the new bank "is not taken up with any ill feelings towards the highly respectable establishment lately formed in this city. Coventry and its opulent vicinity will find abundant room for both to do well and prosper". Nevertheless, an early minute of the provisional committee required all prospective shareholders to bring their accounts to the bank under a very unusual penalty of £2 premium per share allotted. The nominal capital of the bank was £200,000, divided into shares of £20 each, on which £10 was to be paid up. The association of the new bank with the trade and manufactures of the city is indicated by the constitution of the first board of directors,<sup>(1)</sup> for it included two ribbon manufacturers, a druggist and a doctor. With the opening of the new bank, in May 1836, Coventry, with a population of about 29,000, was possessed of four banks, two being long-established private firms and two the newly-formed joint stock banks.

But this rapidity of banking development was by no means unusual; more remarkable examples of enterprise than those provided by Birmingham and Coventry can be found within quite a short distance. Leamington Priors gives just such an instance of rapid multiplication of banking establishments, all the more interesting because the town was otherwise following a very

<sup>(1)</sup> They were: John Wyley (chairman), Richard Warner, Thomas Robinson, Richard Hiorns and James M. Woolfenden.

different road of development from that of the nearby industrial centres. Even at this early stage in the nineteenth century the custom of an annual holiday was spreading, and long before the yearly visit to the coast had become an established practice, inland spas received their periodical influx of health-seeking visitors. Particularly was this true in the midlands, where a visit to the nearest coastal resort involved a long journey, not lightly to be undertaken before the railways had made available facilities for cheap and rapid travel. Thus the spa at Leamington had grown rapidly in favour since the beginning of the century, and by 1841 the population numbered rather less than 13,000, as compared with only about 300 forty years earlier. This alone can have occasioned the optimism shown by multiple joint stock bank formation.

The two years 1834-5 saw the establishment of three joint stock banks in Leamington. One of them was based upon the ten-year-old local business of Tomes and Russell, a private bank originating at Warwick and Stratford-on-Avon,<sup>(11)</sup> but the other two represented quite new additions to the equipment of local business. Thus by the end of 1835, to meet the needs of perhaps 9,000 people in a town possessing no industry and with only a small agricultural market opened in 1813, there were three joint stock banks, with an aggregate paid-up capital of £78,000, and note circulations amounting to a total of approximately £70,000. The three new banks all erected handsome premises, and Leamington early presented an appearance of being dangerously over-banked. The last of the three to be projected was the Leamington Priors and Warwickshire Banking Company, which opened in Church Walk on September 1, 1835, with a nominal capital of £200,000, of which about £22,000 was paid up. As with the Coventry Union Bank, the capital was divided into shares of £20 denomination, a small sum compared with the customary £100 share of the pioneers among joint stock banks, but one which indicated the necessity of appealing to a wider circle of investors.

It is not surprising that, faced with immediate and intense competition, the directors<sup>(12)</sup> of the new bank should be driven to seek for business by opening branches in four nearby towns—Banbury, Kenilworth, Southam and Warwick. In doing so it

<sup>(11)</sup> The Stratford-on-Avon office of Tomes and Russell became part of the Midland system. See page 59.

<sup>(12)</sup> The first directors were: Thomas Lamb (chairman), John Searanche, William Brooks, John Haddon, William Maxey and Thomas Oldham.

aroused some hostility, originating in the uncompromising insularity of many provincial centres. The customers at Banbury were anxious to have a note issue of their own, but "looked with jealousy upon a Leamington note being issued there", the difficulty being surmounted by designing a bank note "the striking word whereof should be Banbury". Despite this attempt at adaptability, the authorized issue of the bank under the Act of 1844 reached only £13,875. A more adventurous effort to attract business was made a few years later. An advertisement appeared in the local newspaper<sup>(1)</sup> stating that the bank, in response to frequent requests, had decided "to adopt the system pursued by the Scotch and Irish Joint Stock Banks and the Royal British Bank recently established in London, of receiving deposits of £1 and upwards, allowing interest at the rate of 3 per cent per annum on all such sums as shall not be withdrawn within three months". Evidently the search for the small deposit had already begun in the midlands, and for the time being this seems to have been a successful innovation. The business prospered, and in 1857 the bank followed the tendency of the town to spread northward by building new and more central premises on the site of the old Bedford Hotel.

The Coventry Union Banking Company adopted a different means of increasing its business. Within a few weeks of formation a private bank in Coventry was approached with a proposal that it should relinquish business in favour of the joint stock bank. This was the firm of Bunney, Bunney and Pepper, which, established as note-issuing bankers early in the nineteenth century, had long enjoyed a high reputation. The Corporation, as well as the Commissioners for the Management of the Streets, were borrowing customers of the private bank. In the course of negotiations the Coventry Union sought the advice of a friendly neighbouring institution, the Birmingham Banking Company, and was recommended to carry through the purchase. The price agreed upon was £2,000 in cash, with 200 shares of the Coventry Union Bank, a total of about £5,000 at the market price of the shares. In such high repute was the private firm held that, as revealed by the agreement, the purchasing bank did not even take the usual preliminary step of examining a list of the customers owing money to the partnership. The board of the joint stock

<sup>(1)</sup> *Leamington Spa Courier*, January 19, 1850.



bank was reinforced by the addition of Robert Bunney and Thomas Pepper, two members of the firm, and there can be little doubt that the business of the partnership was of first importance in setting the joint stock bank on the road to increasing strength.

The friendliness of the Birmingham Banking Company was helpful to the new Coventry bank in more ways than one, for, "wishing to favour the Coventry Union Banking Company", the Birmingham bank granted its smaller neighbour a generous rate for balances. On yet another occasion, moreover, it acted as adviser in the absorption of a private banking firm, Chapman and Co., a note-issuing bank at Atherstone of several years standing, which was taken over by the Coventry Union Bank, also in 1836. Atherstone was largely concerned, with Coventry and Nuneaton, in the ribbon trade, and so presented familiar ground for expansion. This was probably in the minds of the directors when they consulted the Birmingham Banking Company as to the most suitable firm in Atherstone with which to seek an alliance. Upon receiving the reply that an excellent opportunity was presented by the bank of Chapman and Co., then in the sole ownership of John Hood Chapman, who appears to have been interested in the brewing trade, negotiations were at once begun: a sum of £4,250 was agreed upon as payment for the goodwill and fixtures, together with a rental of £50 a year for the parlour of Chapman's house, in which the business was conducted. The curious insularity of the business is shown by the fact that this branch continued to employ as its London bankers a firm used by Chapman, and not the London agents of the Coventry Union Bank. To the foundation thus supplied by two private banks, the Coventry Union added, in the same year, a branch opened at Coleshill, this being the bank's first and only effort to broaden its scope by simple branch extension. The intention of the founders had been to issue notes of the Bank of England, but difficulties were encountered when application was made for the customary discount account on special terms. Lacking the knowledge and determination supplied by Geach to the Birmingham and Midland,<sup>(1)</sup> the bank did not press the matter, but decided to replace by its own notes the circulation of the private bankers absorbed.

The depression which succeeded the prosperous times of 1836 brought acute distress to some of the newly-formed banking

<sup>(1)</sup> See page 59.

companies, especially in towns where such promotions had been numerous. In the midlands the position was aggravated by the failures in Birmingham, and early in 1840 the Coventry bank was obliged to seek assistance from London, explaining to its agents that the trade of the city was in worse condition than for many years, though it was hoped that the spring sales would help the local manufacturers. A call of £2 10s. per share was made on the proprietors, but this was insufficient to provide the required cash resources, and at the end of the year the London agents were still pressing the local bank to reduce the amount of its debit balance. Close investigation showed that the bank had suffered from a not infrequent weakness of early joint stock banking, an unduly optimistic manager. It was discovered that his lack of judgment had resulted in "large and improvident advances to persons outside Coventry", and a first step in surmounting the acute difficulties was the appointment of a new manager, a former chief inspector of the National Provincial Bank. A shareholders' committee examined the affairs of the bank, and their report, submitted in August 1841, was so outspoken that a board minute acknowledging its receipt added this damaging observation: "Its effect [if published] . . . would be so prejudicial to the future interests of the bank as to render questionable its continuance". A less gloomy statement was compiled for public consumption, showing that, with a paid-up capital of about £85,000 (less arrears of nearly £5,000) and deposits and note circulation of £122,000, bad debts were estimated at £19,000. In order to meet the deficiency the capital was halved by writing off £6 5s. per share. The amount of the capital reduction, £40,000, suggests that earlier estimates of the losses were understatements, and the fact that one of the next steps towards recovery involved the sacrifice of a branch confirms the impression that the position of the bank was seriously strained. In 1845 the Atherstone branch—"the Bank House, Garden, Malt Office, and all the appurtenances thereunto belonging . . . and also the Goodwill of the business"—was sold to the Leicestershire Banking Company<sup>(1)</sup> for £6,000, only eight years after purchase as a going concern from a private bank. When it is considered that new premises had been erected, the slightly higher price does not suggest great progress during the years of control from Coventry. As a result of these misfortunes

<sup>(1)</sup> See page 252, footnote.

the note issue accorded to the bank by the Charter Act of 1844 was as low as £16,000, for any lack of confidence was quickly reflected in the extent of the circulation. The blow had indeed been a severe one for a new bank, and recovery was correspondingly slow. Fortunately, the drastic measures of reform enabled it to survive the trials of 1847, but it was not until 1858 that the last of the bad debts was written off, and even then the deposits and note circulation reached only £194,000.

The experience of the Leamington Priors bank in these early years was hardly more fortunate. The town had benefited in accessibility from the opening of the Rugby and Leamington Railway in 1851, and the population continued to increase steadily. Nevertheless, the bank had met with difficulties from the day of opening. The rapid establishment of banking companies around 1836 intensified the existing shortage of trained officers qualified for posts of responsibility. In consequence a good manager often took some time to discover, and this bank in the first three years of its life tried as many different managers. The resultant inconvenience was perhaps more than counterbalanced by the fact that eventually there was appointed T. H. Thorne, a competent and distinguished official who guided the activities of the bank for over forty years, and indeed gave to it, in common usage, his own surname. Very shortly, however, a heavy blow was suffered. In 1839 one of the directors became bankrupt while indebted to the bank, and the consequent loss created uneasiness among the shareholders until a meeting was called to assure them that the position of the bank was sound. As with the Coventry bank, a considerable reduction of capital was undertaken; from the shares of £10 paid £4 was deducted in 1845 to provide for bad debts. Moreover, the bank did not escape unscathed the crisis of 1847, for a year later the attendance at Banbury branch was reduced to two days a week because of the heavy overdrafts at that office. The bank was not alone in its troubles, since one of the other local joint stock banks went out of business ten years after opening, leaving a clearer field for its surviving rivals. Strong efforts were made towards recovery, among them a further narrowing of the scope of operations by the closing of the branch at Warwick, except for attendance on market days and similar occasions. The wisdom of these steps was shortly demonstrated by the manner in which a further considerable local setback was successfully

overcome. Charles Woodhouse, a Leamington draper, was heavily indebted to the Leamington Priors Bank, of which he was a director. In 1858 he asked for an increase in his loan, remarking that in the event of non-compliance he would close his business and that, since the local bank was known to be concerned, a run would inevitably follow. The bank, acting in conjunction with its London agents, refused to be intimidated by the threat. Woodhouse was as good as his word, and closed his doors, while, true to the conditions of the time, a run upon the bank was an immediate consequence. Fortunately, £5,000 in gold had been brought from London as a precautionary measure, and the bank was thus in a position to meet all demands. No worse result followed than a temporary fall in the market price of the bank's shares.

Thus the local banks established in Coventry and Leamington during the exhilarating middle 'thirties of last century each paid the penalties of early imprudence, and each met with varying fortunes for the first twenty years of existence. After this long period of trial they entered into the 'sixties with ambitions curbed, as measured by the number of branches, but freed from the long-lasting consequences of youthful errors. Far stronger than before, and richer in experience, they were better equipped to face the problems of the next thirty years, and passed through the crisis of 1866 with little difficulty, in spite of the severity of the disturbances in Birmingham. The period was one of great changes in the silk trade, in which Coventry and other centres were involved. The Cobden Treaty of 1860 removed the protective duties on silk manufactures, with severe consequences for the smaller mills, erected with the widespread adoption of power looms. The resultant decline of the industry was in some measure arrested by the development of a new process, but the manufacture of spun silk followed the prevailing tendency of textile industries, and settled in the northern towns of Bradford, Halifax and Rochdale. In consequence Coventry, though retaining a share of the market in ribbons, once again suffered the decline of a principal industry, reflected in an actual decrease in population from 41,000 to 39,000 in the ten years from 1861. Possibly it was this local reverse, combined with the marked trend of the times, that persuaded the surviving private bank of the city to relinquish independent existence. In 1865, upon the retirement of the last of the partners, the firm of Little and Woodcock

was purchased by the Birmingham Banking Company, thus establishing a direct link between the two centres somewhat in advance of industrial tendencies.

It was at the time of the decline of the ribbon trade after 1860 that Coventry entered upon a new industrial field. A skill in fine metal work had long shown itself in the success of the watch- and clock-making trade, and to this was added the manufacture of sewing machines and, somewhat later though far more important, the making of bicycles. The new trades drew upon many products of the black country, including welded tubes, brass, leather, nuts, bolts and chains. At this stage, therefore, Coventry may be said to have surrendered its comparative isolation, and to have been well on the way to becoming an integral part of the industrial structure of the midlands. In the 'eighties, moreover, the first English motor cars were made in Coventry, so that the city became even more deeply involved in the economic life of the black country.

This close but long deferred association of the industries of Coventry and Birmingham was shortly reflected in bank amalgamations of far greater significance than the early step taken by the Birmingham Banking Company in 1865. Just prior to the 'eighties the Coventry and Warwickshire Bank had been absorbed by Lloyds Bank, and the Coventry Union Bank did not long remain as an independent institution. It had steadily advanced in reputation and local utility for half-a-century, but one of the consequences of its struggle in early years had been the inculcation of a principle of ultra-conservatism that inevitably led to absorption. Not only had the bank refrained from branch extension, but no steps had been taken to modernize its corporate form. Despite changes in legislation it still remained as a co-partnership, governed by a deed of settlement and publishing no accounts whatsoever. Even the occasional balance sheets entered in the minute books were so discreet as to be uninformative. Here, for example, is a specimen, dated June 30, 1858 :—

LIABILITIES.	£	ASSETS.
Paid-up capital... ..	56,000	By amount of Cash and
Current and other ac-		Bills on hand, also
counts and circulation	194,342	value of Bank Pro-
Guarantee Fund... ..	9,328	perty, Money in the
Net profits for year ...	6,800	Funds and accounts
		owing to the Bank ...
	<u>£266,470</u>	<u>266,470</u>
		<u>£266,470</u>

When the Act of 1879 induced most banks to register as limited liability companies, those resisting the change were quickly placed at a disadvantage, to be seen in a decline in the market value of their shares and in a demand for balance sheet figures. There were two possible courses open: either a complete change of front on the question of limited liability, or acceptance of the way out provided by amalgamation. The Coventry Union chose the second course; proposals from the Midland Bank were welcomed, and in February 1889 terms were agreed upon.<sup>(1)</sup> Thus the fifty-year-old Coventry bank became part of the Midland organization. At the time of amalgamation the Coventry bank, with a paid-up capital of £56,000, a reserve fund of approximately £35,000 and deposits amounting to roughly half-a-million, represented a valuable addition to the medium-sized Birmingham bank. The board of the amalgamated banks was strengthened by the election of William Fitzthomas Wyley, whose family had been represented on the directorate of the Coventry Union Bank from the day of opening, and who himself had been in office since 1880.<sup>(2)</sup>

The amalgamation was significant from a personal point of view; it was the first in which Holden, then sub-manager of the Midland Bank, took a principal part, and was by far the most considerable transaction of the kind which the bank had negotiated. It marked the first step in a new policy of rapid expansion that was pressed forward for the ensuing thirty years. Two months after amalgamation with the Coventry Union Bank, the Leamington Priors and Warwickshire Banking Company was absorbed, while before the year was ended negotiations had been concluded for union with a bank in Derby.

The position of the Leamington bank was quite different from that of the Coventry Union—there were no industries to swing the economic life of the town towards Birmingham or to call for credit facilities beyond local resources. On the other hand, the need for wider services, obtainable only from an extensive branch system, was becoming more apparent. As early as 1866 one of the joint stock banks of Leamington had amalgamated with Lloyds Bank, and approaches were made from more than one direction to the

<sup>(1)</sup> The terms were: two Midland shares (of £60, with £12 10s. paid up) plus £4 10s. cash for five Coventry Union Bank shares (of £30, with £6 5s. paid up). Alternatively, Coventry bank shareholders could receive £14 in cash for each share, if they preferred to sell their holdings.

<sup>(2)</sup> Colonel W. F. Wyley is still a director of the Midland Bank.

Leamington Priors and Warwickshire Bank. This local bank, however, clung sturdily to its independence, rejecting all offers until, twenty years later, as the result of a local banking failure, the need of a strong alliance was suddenly intensified, both directly and indirectly. In spite of the adequate or more than adequate banking facilities of the town, an addition had been made in 1863 by the establishment of a branch of Greenway, Smith and Greenway, a firm of bankers at Warwick that dated back to 1791.<sup>(1)</sup> For three generations the firm had prospered and earned an unrivalled reputation for stability. In fact, however well deserved this reputation had been in the earlier days of the bank, by the time of its incursion into Leamington the partners were deliberately prostituting its good name. The reckoning, made all the more serious by long delay, was devastating in its effects.

Warned by no breath of suspicion, Warwick and Leamington learned on September 6, 1887 that the London agents had refused to honour Greenways' drafts, and that in consequence the firm had suspended payment. The blow was overwhelming, for the bank controlled more than a quarter-of-a-million pounds in customers' balances, about evenly distributed between the two towns. The supposedly wealthy partners were found to have mortgaged their private estates up to the hilt, to be indebted on personal overdrafts at their bank exceeding in total £100,000, and to have embarked upon the wildest of speculations. Over £200,000 had been lost in a tannery at Kenilworth, and about £37,000 was locked up in tramway ventures, while the good overdrafts owing to the bank were estimated to be as low as £40,000. It was plain that only a very small dividend could be expected from the estate, and for two comparatively small towns the loss was indeed severe. Effigies of the partners were publicly burnt at the conclusion of a march from Leamington to Warwick, and two of the Greenways received terms of imprisonment for fraud. The business—or what little was left of it in good condition—was taken over in the same premises by the Staffordshire Joint Stock Bank,<sup>(2)</sup> forming a direct link with the midlands, and two years later the Staffordshire

<sup>(1)</sup> The firm had been founded by two Quakers, Whitehead and Weston, to deal with the business of local farmers. In course of time the partnership had come into the hands of the Greenways, and at the time of the extension to Leamington four out of the five partners were members of the family, with Kelynge Greenway as senior partner.

<sup>(2)</sup> See chapter II. A story has been handed down that in fact some part of the business was acquired by another bank, which employed in a well-paid but unimportant capacity the innocent junior partner of Greenways' bank.

Joint Stock Bank itself was absorbed by the Birmingham Banking Company.

The effect of the Greenway failure upon other local banks was inevitably acute. The Leamington Priors and Warwickshire Banking Company, which had pursued an even course for many years, suffered a sharp decline in deposits from £223,000 to £201,000, while the note issue fell from £6,255 to £1,975. Fortunately the bank, which had registered as a limited company in 1880, had accumulated a guarantee fund of £24,000, and its published balance sheets indicated a sound position. It was becoming evident, nevertheless, that an alliance with a larger bank would be desirable. In the year of the failure the Birmingham Banking Company suggested terms of amalgamation, but again the suggestion was spurned by the Leamington bank. Two years later, however, when competition in Leamington had been suddenly intensified by the advent of the Birmingham Banking Company in the place of the Staffordshire Joint Stock Bank, an offer made by the Midland proved more acceptable.<sup>(1)</sup> The Midland directors regarded the acquisition of the Leamington bank as providing "a good introduction to that end of the county and . . . a natural extension of the . . . lately acquired business in Coventry". Thus it was that in May 1889 the banking business of Leamington became closely linked with that of Birmingham, a partnership of strange contrasts which, like many such in human relationships, proved highly advantageous to both sides.

No sooner had these amalgamations been concluded than the Midland began to look further afield. Prompted by the success of the first excursions into the neighbouring districts of Coventry and Leamington, the restless energy of Holden sought a widening of the field of representation. Already branches had been opened at Leicester and Northampton, bringing the total of new branches, strictly speaking, outside Birmingham to six. The next step was to Derby, a distance of fifty miles from Birmingham. The county of Derbyshire had suffered in common with Coventry from the decline of the silk trade. Hitherto the course of modern economic development had run along somewhat similar lines in the two towns, though Derby had developed important interests in cotton, hosiery and lace, as well as some metallurgical industries.

<sup>(1)</sup> The terms were: two Midland shares (of £60, with £12 10s. paid up) and £1 10s. in cash for three Leamington Priors Bank shares (of £50, with £10 paid up).



and the production of china and pottery. The cotton famine of the early 'sixties<sup>(1)</sup> dealt a severe blow to the local industry, and the reduction in activity was shared by the hosiery and lace industries, though this group fully recovered before the century drew to a close. As it happened, the loss was more than made up by rapid development in the coal mining and metallurgical industries, which, under the stimulus of railway building and the increased use of machinery, rapidly became the largest trades in the county. It may perhaps be said, indeed, that the decade from 1860 marked a turning point in the economic history of Derbyshire, and that it was during those years, in which the population of the county town increased from 53,000 to 64,000, that the balance of economic activity was transferred from textiles to the heavy industries, thus bringing town and county into closer alliance with the midlands.

Among other evidence of commercial growing pains in Derby, complaints were heard of inadequate banking facilities. By the 'sixties the town possessed four banks, three being private firms and one a joint stock institution. The population had quadrupled since the beginning of the century ; as a result there was a considerable addition to the number of tradesmen and shopkeepers, and it appears that these active and resourceful members of the community felt themselves neglected by the old and still predominant private banking firms. The crisis of 1866, with its attendant failures, provoked a brisk discussion in the local press<sup>(2)</sup> regarding financial services. It was alleged, with what degree of justice is impossible to say, that the banking needs of small but sound men were overlooked by banks more concerned with large but speculative advances to "men of straw", and the tradesmen of the town were counselled to place their balances where they could rely upon steady co-operation. It cannot but be supposed that some local grievance was operating, or alternatively that a skilful publicity campaign was being carried out in advance of the birth of a new undertaking. In any event, early in 1868, a prospectus was published announcing the proposed formation of an additional joint stock bank.

The document was issued under the ægis of a provisional committee of twelve members, including the mayor of Derby and an ex-mayor, three ironfounders, a manufacturer, a builder and a

<sup>(1)</sup> See chapter V.

<sup>(2)</sup> *Derbyshire Advertiser*, January 3, 1868.

maltster, and three others described as tradesmen.<sup>(1)</sup> This very representative list indicates the weighty support accorded to the project, and gives some measure of the breadth of interests of the town. The prospectus pointed out that, despite the great increase in commercial activity, no new bank had been established in Derby for thirty-five years, partly because of the restrictive legislation of 1844, and partly because the benefits of limited liability had been accorded to bank shareholders only during the preceding decade. Doubtless allowance should also be made for the strong hold which private banking retained in the town. The Derby Commercial Bank, as the new project was entitled, was to be registered as a limited liability company with a nominal capital of £200,000 in 10,000 shares, a modest enough proposition for a town of the size of Derby. Yet there was some difficulty in obtaining sufficient funds, possibly due in part to the strength of established banks and in part to the unfamiliarity of the public with limited liability in joint stock banking. Eventually the provisional committee succeeded in placing 6,000 of the shares, upon each of which £3 was at first called, providing a paid-up capital of £18,000, and with these humble resources the bank opened for business in Tenant Street on July 1, 1868.

Scarcely had business begun when serious losses were met, and the first year's profits were withheld as a precautionary measure. Twelve months later it was announced that a heavy loss, arising from a local failure, would absorb the prospective profits of the bank for some years, besides necessitating an immediate call of £1 per share. With the loyal support of the shareholders the difficulties were surmounted, though local business troubles were enhanced by the Franco-Prussian war, which dislocated the silk trade and brought many failures. After so troubled a childhood, it was not until 1871 that the bank was able to pay a dividend at the low rate of three per cent, and then only after a sharp division of opinion among the directors as to the advisability of distributing any profits until the reserve position was stronger.

It is clear that the bank's early losses were very severe, and, while the precise amount is not known, the fact that sums were set aside from profits year by year until 1877 suggests that it far exceeded the paid-up capital. The survival of the company after so early and severe a setback speaks highly of the esteem in which the

<sup>(1)</sup> The first directors were: Alderman John Renals, Thomas Roe, junior, mayor of Derby, George Holme, Reuben Eastwood and Joseph Hall.

founders were held, and of their unflagging persistence. More especially is this so since it was specifically to avoid large loans, and to serve rather the smaller trader and industrialist, that the bank had been formed. Happily, misfortune ceased to dog the steps of the bank, and the next few years were marked by rapid recovery. A guarantee fund was steadily accumulated, dividends rose from five to ten per cent, and new premises were erected in 1879 at St. Peter's Bridge.<sup>(1)</sup> By 1885 the paid-up capital stood at £50,000, and deposits exceeded £300,000. Warned by the experience of early years, the directors pursued a cautious policy expressed, among other ways, in a definite antagonism to seeking business by branch extension. This reluctance to extend, however, in turn brought difficulties. Having but one office, the bank met with the frequent experience of such small "unit" banks during the closing decades of the nineteenth century, that of a steady decline in deposits—the three years from 1885 saw a fall from £300,000 to £236,000. Clearly enough, the bank was unable to cope with the business of the larger undertakings, and the discouraging movement forced the directors to modify their long-standing attitude. They decided to seek resources by opening branches, but while the discussion was proceeding an alternative course of action was presented.

The banking arrangements of the town had adjusted themselves in some measure to the needs of the time. Two local private firms joined forces in 1877 to form a joint stock bank, leaving only one representative of private banking. A link with the midlands was forged in 1863 by the establishment of a branch of the newly-formed Midland Banking Company Limited.<sup>(2)</sup> It is not surprising, therefore, that in December 1889 two growing provincial joint stock banks were negotiating with the Derby Commercial Bank for amalgamation, and that the overtures of one of them reached a final stage. Thus the trend of economic circumstances, combined with an excellent offer,<sup>(3)</sup> induced the Derby Commercial Bank to amalgamate with the Midland. The reputation of the Midland stood high in the town, and had been enhanced by its recent extension to Coventry and Leamington. When amalgamation

<sup>(1)</sup> Now the Derby branch of the Midland Bank.

<sup>(2)</sup> This institution never became part of the Midland system, though the similarity of name has led some writers to record that it did. In fact it was ultimately absorbed into Barclays Bank.

<sup>(3)</sup> The terms were: one Midland share (of £60, with £12 10s. paid up) for three Derby Commercial Bank shares (of £20, with £5 paid up), or alternatively a cash payment of £12 10s. for each Derby bank share.

took place the paid-up capital of the Derby Commercial Bank was £50,000, the reserve fund £30,000, and deposits £222,000, and from the first day of 1890 this useful connection in Derby became part of the expanding Midland system.

From Derby the Midland looked northwards for its next amalgamations, absorbing two banks operating in Leeds and district in 1890, and it then turned to London, following the well-nigh irresistible trend of banking development. These were movements into very different spheres of economic activity, and in consequence they are described, with the history of the banks concerned, in later chapters.<sup>(1)</sup> It is, however, worth recording that at this date the Midland reached its peak as a country institution—a position set out in the map on page 100. So, also, the Birmingham Banking Company obtained a footing in London in 1889, two years in advance of the Midland, changing its name to the Metropolitan and Birmingham Bank. Shortly afterwards this bank was concerned in absorptions falling more appropriately into this part of the story. It carried through amalgamations with two banks centred in South Wales, the South Wales Union Bank, with its head office at Swansea, and the National Bank of Wales, operating in and from Cardiff. Both were quite young institutions, the South Wales Union dating from 1873 and the National from 1879, and both arose as part and parcel of remarkable developments in the industrial history of the principality.

In previous pages reference has been made to the early economic connections between the midlands and South Wales, particularly in the iron trades. "The valleys of Glamorgan and south-west Monmouth were the annexes of the Black Country",<sup>(2)</sup> and by the beginning of the nineteenth century even more distinctive links had been forged, for at least two large copper works in South Wales were owned by Birmingham industrialists. During the century the old connections, notwithstanding that they were obscured by the swift expansion of the South Wales coal trade, were strengthened, for, when Siemens had perfected his method of steel making at Birmingham, he began production on a large scale near Swansea in 1868. A few years later the tinsplate industry began to make rapid strides in South Wales, establishing a manufacture that looked to foreign trade for its principal market, just

<sup>(1)</sup> For Leeds and district see chapter VII, and for London see chapter X.

<sup>(2)</sup> J. H. Clapham: *An Economic History of Modern Britain, 1850-1886.*



### THE MIDLAND AS A COUNTRY BANK

THIS MAP SHOWS THE BRANCH REPRESENTATION OF THE MIDLAND BANK ACQUIRED PRIOR TO THE ENTRY INTO LONDON IN 1891. PLACES MARKED ● ARE THOSE IN WHICH A STRICTLY NEW BRANCH WAS OPENED; PLACES MARKED † ARE THOSE IN WHICH BRANCHES WERE ACQUIRED BY AMALGAMATION. IT THEREFORE DEPICTS THE MIDLAND'S FINAL STRUCTURE AS A COUNTRY BANK.

as did the Welsh coal industry. In earlier years this manufacture had been shared with the midlands, but now Birmingham drew largely upon South Wales for supplies of the semi-manufactured product, to work up into finished articles of tinsplate and japanned ware. From early in the eighteenth century tinplates had been manufactured in Glamorganshire, but it was not until 1870 that the industry achieved any considerable development. Then the application of great technical improvements in manufacture, together with a rapidly rising demand, brought about a swift expansion. A large proportion of the output was sold abroad, the South Wales industry being for many years practically the only source of world supply. During the decade from 1865 exports more than doubled, reaching nearly three million hundred-weights. Up to this stage they were still sent coastwise to Liverpool, and thence re-shipped for export to foreign countries, for there were no direct facilities at the South Wales ports for shipments to the United States, by far the principal market. In 1882 the opening of a large dock at Swansea considerably extended the shipping trade of the area, and the establishment five years later of the Swansea Metal Exchange marked the transfer from Liverpool to South Wales of the distribution and merchanting side of the industry.<sup>(1)</sup>

As might be expected, the growth of new industries pressed hard upon local banking, and a demand arose for increased facilities. True, there were some long-established Welsh banks, both private and joint stock, which continued to serve the district, while a few English banks had already placed branches in various towns. Nevertheless, the sudden increase in economic activity rendered the public impatient for additional resources, and in November 1872 the prospectus was issued of the Swansea Bank Limited. It referred to the "enormous increase of Swansea during the past twenty years", justifying the adjective by quoting a rise in population from 46,000 in 1851 to 74,000 twenty years later, and an increase in the registered tonnage of shipping from 269,000 to 720,000 over the same period. It pointed out that there were only two banks in the town to accommodate the growth of industry and trade, and added that so keenly was the commercial necessity for a new bank felt that the accounts of the promoters, "influential and wealthy merchants of Swansea and neighbourhood . . .

<sup>(1)</sup> J. H. Jones: *The Tinplate Industry* (1914).

[would] be sufficient of themselves to establish a business". It is easy to see whence originated the clamour for increased banking facilities. The first board contained nine directors, all of Swansea, with Edward Bath as chairman, and several of them were directly associated with the tinplate industry.<sup>(1)</sup>

The nominal capital was fixed at £500,000 in shares of £20, and it was proposed to issue only 15,000 shares in the first place, with £6 paid up. The issue proved popular and was considerably over-subscribed, so that on January 1, 1873 the bank opened for business in High Street, Swansea. During the ensuing two years branches were opened at Llanelly and Burry Port, the latter in response to a "numerously signed requisition from Merchants, Shopkeepers, and other inhabitants". Already the business of the bank had increased so rapidly as to strain its resources, a strain intensified by the protracted strike in 1875 among workers in the depressed iron industry of South Wales. There were also two large local failures, with which the bank's name was erroneously connected. The position was met by issuing further shares at a premium of £3, and reducing outstanding loans as equitably as possible. With commendable prudence the directors refused to increase re-discounts, though the bank held a large amount of eligible bills. Yet it proved extremely difficult to restore reasonable balance sheet ratios, and by December 1876, with a capital of £201,000, a reserve fund of £32,000 and deposits of only £165,000, the bank was lending on bills and advances as much as £371,000.

This early period of trial was safely overcome, but the pressure upon lending capacity continued. Nor is this surprising, for the tinplate industry was working up to a boom in 1879, a year in which one hundred new mills were erected in the district. Meanwhile, South Wales had been gravely disturbed by the failure of the West of England and South Wales District Bank, established in 1834, which suspended payment in December 1878 following upon large losses from the depression in the iron industry. The bank controlled £4½ millions of deposits and operated through 49 branches, largely in South Wales, and the blow to confidence was therefore severe. The failure brought some additional business

<sup>(1)</sup> The other directors were: Evan Daniel, mining engineer, John Glasbrook, mayor of Swansea, J. J. Jenkins, of the Swansea Tinplate Company, Marcus Moxham, merchant, John Powell, of the Landore Tinplate Company, Alfred Sterry, Morgan B. Williams, and F. A. Yeo, of Cory Yeo and Co.

to the Swansea Bank, but a far more important consequence was the establishment of a further institution, the National Bank of Wales Limited.

The new bank, unlike the Swansea Bank, did not arise from local enterprise, nor was it closely connected with particular local industries. Indeed, the initiative to fill the vacancy created by the failure came from a distant centre. The National Bank of Wales was founded in Manchester, the subscribers to the memorandum and articles of association were all of Manchester addresses, and at first the head office was in Manchester. The original nominal capital was £200,000 in shares of £20, with £10 paid up, and these were readily subscribed. The bank quickly opened branches in the footsteps of the West of England Bank at Aberdare and five other towns of South Wales, and began business in February 1879.

Very soon the arrangement for control from so remote a head office proved unsatisfactory, and the promoters, having played their part in establishing the bank, were content to see the central office removed to Aberdare in 1880. Two years later the head office was again moved, this time to Cardiff, the bank meanwhile passing into the control of local men.<sup>(1)</sup> Thereafter it gave every appearance of steadily advancing success, establishing five new branches and eleven agencies by 1883. Further issues of shares, mostly at a premium, increased the paid-up capital to £225,000 by 1890, in which year the published balance sheet showed deposits amounting to £1,270,000, a reserve fund of £38,000, and loans and bills exceeding £1,320,000, while dividends had increased from six to ten per cent. The figures show in part the results of a notable extension of the bank, made in December 1890, when the business of Pugh, Jones and Co., bankers at Pwllheli and other towns in North Wales, was purchased.

In another chapter the origin of Pugh, Jones and Co., as an offshoot from the North and South Wales Bank, is described.<sup>(2)</sup> For nearly half-a-century the firm had steadily increased its range and influence, becoming known as the Caernarvonshire and District Bank, with offices in Pwllheli, Blaenau Festiniog, Bangor and eleven other places in North Wales, as well as several agencies. It brought to the National Bank of Wales deposits exceeding

<sup>(1)</sup> In 1884 the directors were: Thomas Cory, F. R. Crawshaw, John Cory, Major Hair, F. R. Howell, H. W. Kirby and W. T. Lewis.

<sup>(2)</sup> See page 185.



£500,000 and a long-established connection, besides an unusual assimilation of north and south. The surviving partners of the firm, Robert Jones, John Parry Jones and William Thomas, together with Sir Hugh Owen, one of the trustees of the late Hugh Pugh, founder of the bank, remained as a consultative board for the North Wales connection. Though the position of the private bank was discovered at a later stage to be by no means sound, it nevertheless appeared at the time to give a powerful accession of strength to the joint stock company. The National Bank of Wales seemed to have become well established as one of the principal financial institutions in Wales. In fact, however, it was pursuing a reckless course which eventually led to disaster, and the appearance of increasing prosperity disguised a sorry condition of instability.<sup>(1)</sup>

The wild career of the National Bank of Wales was in no sense comparable to the steady progress of the Swansea Bank, though this institution also made rapid strides during the decade to 1890. It was a period in which steel replaced puddled iron as the basis of tinplates, and the raw material was close at hand, since South Wales was one of the greatest steel-producing centres in the country, and the product of the Siemens process was suitable for tinplates. During the decade exports again doubled, raising the figure of export trade to more than £6 millions. The bank still found that available business exceeded its lending capacity, and in 1885 negotiations were begun for amalgamation with the National Bank of Wales, only to be abandoned, fortunately for the Swansea Bank, on a disagreement as to terms. Three years later the Swansea Bank undertook a considerable extension. In 1888 a new joint stock bank was projected in Cardiff, but before the scheme was completed the Swansea Bank arranged to open a branch in that town, taking over the business connections of the promoters. Three Cardiff directors were appointed, and the bank changed its title to South Wales Union Bank Limited. Thereafter the business extended rapidly; five new branches were opened in nearby towns, and by 1891, with a capital of £206,000 and reserve of £50,000, deposits had grown to £841,000, while loans and bills were £816,000.

In 1890 the progress of local industry received a sharp check. America was still by far the largest market for tinplates, and

<sup>(1)</sup> See page 106.

South Wales continued to enjoy a practical monopoly of the supply. In that year, however, the M'Kinley tariff placed heavy duties upon imports of tinplates into America; in consequence exports to that country declined steeply, and the South Wales industry suffered extreme depression, bringing many failures. At the time it was believed that the trade would never recover, for during the succeeding decade exports were halved, and, although in fact this gloomy forecast proved to be wrong, the experience was more than sufficient to convince local banks of the need for amalgamation with undertakings of broader interests. The South Wales Union Bank, from its close concern with the tinplate trade, was severely affected by the depression, and, though its position was sound and prosperous, it wisely sought a strong partner with whom to face the troublous years ahead. Accordingly, in March 1892 an amalgamation was arranged with the Metropolitan and Birmingham Bank (formerly the Birmingham Banking Company), which was then seeking an opportunity for further expansion.<sup>(1)</sup> In this way the South Wales Union Bank became part of a Birmingham institution with representation in London. Four directors of the Welsh bank were elected to the board of the Birmingham bank, which then adopted the cumbersome title of Metropolitan Birmingham and South Wales Bank.

A few months later the Metropolitan Bank, exuberant in rapid expansion, was seeking to consolidate its position in the principality by amalgamation with the National Bank of Wales, and in March 1893 a provisional agreement was signed. By this means extensive representation was added throughout Wales, and a strong business connection, indicated by deposits amounting to £1,300,000, was believed to have been acquired. The agreement transferred the business of the Welsh bank as from December 31, 1892, accepted the balance sheets as accurate pending a detailed valuation, and undertook that the payment for goodwill should be not less than £110,000. For various reasons it was not possible to complete the amalgamation until three months later, a period in which large sums were advanced to the Welsh bank to meet outstanding liabilities. It soon became apparent, however, that the National Bank of Wales was hopelessly insolvent, and had been so for many years. In consequence the settlement dragged

<sup>(1)</sup> The terms were: Metropolitan and Birmingham Bank was to pay £345,600 in cash, or £11 14s. 3d. per South Wales share (of £20, with £7 paid up); shareholders of South Wales bank to have the option of taking Birmingham bank shares (of £50, with £5 paid up) at £16 per share.

on, with endless disputes between the liquidator and the purchasing bank. Various actions were begun from both sides, in course of which the lamentable truth of the Welsh bank's history came to light. For six years at least dividends had been paid out of capital; unsecured loans for large sums had been made to the directors and the general manager, while the balance sheets, upon which the valuation for goodwill was based, were shown to be false. The purchase of Pugh, Jones and Co. was seen to have taken into the National Bank bad debts exceeding £80,000, for which no allowance had been made, and a sum of £30,000 had been misappropriated, during negotiations, for division between the general manager and two directors of the National Bank of Wales. Altogether it was estimated that the bank had lost approximately £500,000, and this sum was covered in part by calls upon shareholders. The fraudulent practices of the general manager and some of the directors were punished by terms of imprisonment, but not until 1902 was the distressing affair publicly reported to have been cleared up, and at that date the Metropolitan Bank calculated that it had lost as a result of this injudicious amalgamation no less than £350,000, quite apart from the damage to credit and prestige that inevitably followed upon the disclosures.

Thus the Metropolitan Bank paid dearly for its experience in the early stages of expansion; so heavy was the price, indeed, that apart from the absorption of a small private bank in 1910<sup>(1)</sup> no further efforts were made to extend by amalgamation. Fortunately, the bank was in a position to bear the loss, but there can be little doubt that the subsequent unwillingness to extend further arose directly out of the dismal experience in Wales. Shortly after absorbing the National Bank of Wales the Metropolitan Bank again changed its title, for the last time, to Metropolitan Bank (of England and Wales) Limited; it then possessed 115 branches, and, with a capital and reserve fund each amounting to £470,000, controlled £6 millions of deposits. Thereafter it survived as a bank of considerable importance in the midlands and in Wales, with a useful footing in London, until in 1914 it combined with an old rival, the Midland.

The line of action thus pursued with such unhappy results contrasted strongly with that adopted by the Midland Bank. In 1880 it was about the same size as the old Birmingham Banking

<sup>(1)</sup> Davies, Banks and Co., of Kingston—see pages 175 and 320.

Company, and for the next ten years their relative positions remained the same. After the chastening Welsh absorptions, however, the Birmingham Banking Company, now re-named the Metropolitan Bank, progressed but slowly, while the Midland went swiftly ahead, pressing the policy of amalgamation in all directions. Happily, misfortunes comparable to that of the Metropolitan Bank were avoided by the Midland. In point of fact, negotiations had been opened for the absorption of the National Bank of Wales by the Midland before the Metropolitan Bank began to seek a fusion ; but Holden refused to offer terms acceptable to the Welsh bank, the negotiations were abandoned, and immediately afterwards branches of the Midland were placed in Cardiff, Swansea, Newport and other towns of South Wales.

By various means, therefore, the financial mechanism of South Wales was closely linked with that of the midlands, and a long-existent economic affinity found ultimate expression in bank amalgamations. By the stage we have reached the Midland was no more than a fair-sized provincial institution, though it had made swift progress, to be seen in the increase in balance sheet figures, following upon the amalgamations here recorded. During the two years preceding 1890 the capital, by rising to £638,000, was nearly doubled, the reserve was more than doubled in reaching £500,000, while deposits at £5,616,000 were also more than twice the figure for 1888. The next vital step in the career of the Midland took the form, in 1891, of an amalgamation which brought London and provincial banking into direct association. At this point, however, it is necessary to depart from chronological order for the purpose of showing that local coalescence in banking was taking place in other areas equally with the midlands.

## APPENDIX TO CHAPTER III

## EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

(£000 omitted)							
Name of bank	Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills	
<b>BIRMINGHAM AND MIDLAND BANK</b> (continued from appendix to chapter II)							
1880 ...	300	210	nil	2,015	1,327	619	
1890 ...	638	500	nil	5,616	3,502	1,374	
<b>BIRMINGHAM BANKING COMPANY</b> which became the Metropolitan and Birmingham Bank, 1889 (continued from appendix to chapter II)							
1880 ...	286	312	nil	2,296	1,627	747	
1890 ...	330	330	nil	4,182	2,340	693	
<b>COVENTRY UNION BANKING COMPANY</b>							
1840 ...	62	nil		129		193 (includes all asset items)	
1858 ...	56	9		194		266 do.	
<b>DERBY COMMERCIAL BANK</b>							
1870 ...	24	nil	nil	51	59		
1880 ...	45	9	nil	125	136		
<b>LEAMINGTON PRIORS AND WARWICKSHIRE BANK</b>							
1880 ...	32	14	8	212	176	8	
<b>NATIONAL BANK OF WALES</b>							
1880 ...	50	nil	nil	33		39	
1890 ...	225	38	nil	1,270	1,007	317	
<b>SOUTH WALES UNION BANK</b>							
1880 ...	201	35	nil	178		376	
1890 ...	206	47	nil	737		730	

## CHAPTER IV

### EXPANSION INTO THE NORTH-WEST

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The Midland Bank made its first incursion into the north-west in 1893, when it absorbed the Bank of Westmorland; three years later it acquired the Carlisle City and District Bank; by amalgamation with the London Joint Stock Bank in 1918 it strengthened its connection in the area, since the Cumberland Union Bank had been taken over in 1901 by the York City and County Bank, which itself was absorbed by the London Joint Stock Bank in 1909.

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THE economic history of the north-western counties of England tells of a long struggle against harsh natural conditions, made all the more unequal by political disturbance dating far back beyond the final struggles of the Picts and Scots to the departure of the Legions of Rome. A mountainous and rocky land surface receives the heaviest rainfall in the British Isles, and affords little opportunity for arable farming. Nevertheless, the rolling border country which gives way to the fell slopes of the Lake District is well suited to pasturage, and sheep and stock breeding and dairy farming have become strongly established. In addition, fresh- and sea-water fishing has always provided a source of income. For centuries the land was a disputed territory, owing allegiance sometimes to the English and sometimes to the Scottish crown. Spades and ploughs were neglected for pikes and claymores by the warlike border peoples, who sought rather the mixed reward of adventurous foray than the more sober livelihood to be won from the soil. As a result agricultural development in Cumberland was arrested until the comparatively peaceful days of the later eighteenth century. For the same reason the mineral wealth of the hills was for long left more or less untapped. Silver, lead and copper were first in order of extraction, to be followed by coal, iron and graphite. The restraint of economic by political forces was not so serious in Westmorland, which escaped the immediate turmoil of the border, and the smaller county took precedence in early efforts at manufacture.

BANKS IN CUMBERLAND AND WESTMORLAND FORMING  
PART OF THE MIDLAND BANK CONNECTION

PRIVATE BANKS

Established	Firm	Town	Absorbed by
1788	Wakefield and Co. ...	Kendal and Carlisle	Carlisle branch purchased by Carlisle City and District Bank, 1837
1792	Leith Banking Company	Carlisle ...	do.
1804	J. M. Head and Co.	Carlisle ...	Cumberland Union Banking Company, 1865
1825	J. Connell and Co. ...	Carlisle ...	Carlisle City and District Bank, 1837
1829(?)	Joseph Sanderson...	Cockermouth	do. 1837
1830	Charles Head and Co.	Hexham ...	Cumberland Union Banking Company, 1865
1830	Carrick and Lee ...	Brampton...	Carlisle City and District Bank, 1872
1847	Joseph Dickinson ...	Alston ...	do. 1890

JOINT STOCK BANKS

1829	Cumberland Union Banking Company	York City and County Bank, 1901
1833	Bank of Westmorland ... ..	Midland, 1893
1836	Borough Bank of Carlisle (did not open as separate bank)	Carlisle City and District Bank, 1837
1837	Carlisle City and District Bank ...	Midland, 1896

It is the proud claim of Kendal that it was the first home of the woollep manufactures of England.<sup>(1)</sup> Such claims are always difficult to establish or refute, but records show that John Kemp of Flanders, protected by royal patronage, settled in the town in the early fourteenth century and, with immigrants from Brabant, taught the inhabitants his skill in textiles. The trade flourished, and gave birth to a highly organized outwork system spreading throughout the hills and valleys of the county until Kendal "cottons",<sup>(2)</sup> together with a special Kendal "green", became part of the everyday life and literature of the time. The supremacy of Westmorland woollen manufacture reached a peak early in the seventeenth century, then to give place to the superior quality of production in other parts of the country. The trade in Westmorland declined to vanishing point, and the inhabitants of the principal town found occupation in a number of small manufactures ranging over gun-powder, polished marble, leather goods, textile cards, snuff and brushes.

The economic history of Carlisle, the business centre of Cumberland, was more chequered than that of Kendal. For many years woollen and linen manufacture unsuccessfully strove to obtain a footing, but the city, captured and re-captured as late as 1745, did not offer encouragement to the arts of peace. Indeed Whitehaven, comparatively immune from the predatory raids of the Scots and enriched by the increasing production of the west coast collieries, at an early stage outstripped the progress of the capital. It possessed a newspaper twenty years before Carlisle, and until the third decade of the nineteenth century supported a larger population. During the eighteenth century the fears of Scottish invasion were at long last laid to rest, and political calm provided the essential basis for economic progress. Stock farming made rapid advances, and the foundations of a short-lived cotton industry were laid in Carlisle. Even allowing for these limited industrial developments, the two counties remained, at the beginning of the nineteenth century as today, essentially agricultural districts. Since then, despite the establishment of varied trades, it is true to say that only along the west coast has any marked industrial development occurred. A colliery district of early importance extended through the towns of Whitehaven,

<sup>(1)</sup> C. Nicholson : *Annals of Kendal* (1861).

<sup>(2)</sup> Early forms of woollen manufactures were known as "cottons", a name later applied exclusively to the vegetable product.



Workington and Maryport, and was enlarged about the beginning of the nineteenth century on the basis of a coastal trade to Lancashire and northern Ireland. Further south the Furness area of Lancashire became prominent in the second half of the century as a source of iron and steel, mainly dependent on the rich hematite ores of west Cumberland. The former staples, silver, lead, copper and graphite, declined in the face of cheaper foreign production. Although Carlisle was thus at first passed by in the modern trend of industrialization, the city gained in importance as a centre of transport and marketing. Already established as a natural route centre, served by four rivers and the well-worn roads north, south and east to Scotland, Lancashire and Northumberland, the coming of the railways strengthened its key position.

The story of Carlisle furnishes early examples of rudimentary private banking. In the second half of the eighteenth century, when a small cotton industry, and also calico printing, were added to the activities of the city, two banking firms were founded, one of which, Thomas Forster and Co., enjoyed a prosperous career well into the nineteenth century. Banking developments in Carlisle were, however, of a rather special nature, for a list<sup>(1)</sup> of local bankers dated 1787 contained the names of two agents for Scottish banks. Clearly, Cumberland possessed a close geographical affinity with the southern counties of Scotland, but more surprisingly the racial antagonism of early years had been quickly replaced by intimate economic association.

By this time Scotland was already strong in joint stock banks, with growing branch systems and trusted note issues, and it was natural that the stronger banks of Scotland should look southward for extension. At first two or three clerks from various Scottish banks attended the great cattle fairs, but this form of itinerant banking soon led to the placing of settled agencies in such towns as Penrith and Wigton, as well as Carlisle. Instructions to the agents made it clear that their principal duty was to extend the note circulation of their banks as widely as possible, bringing notes into general use by the discount of bills, and selecting times and places for distribution which would ensure a long period before presentation for payment. Sometimes the sole remuneration of the agent took the form of a commission

<sup>(1)</sup> Launcelot Smith: *Directory of Carlisle, 1787*. There are reasons for supposing the date of entries to run as late as 1791-6.

of 2s. 6d. to 5s. per cent on notes placed, and often he was required to make up deficiencies on light gold or silver paid in, besides being responsible for any losses incurred in the course of his business.<sup>(4)</sup> As a result of this pressure, the private bankers of Cumberland were destined to witness a general use of the Scottish note in preference to local issues ; indeed, they were even required to assist the process of distribution. It is on record<sup>(11)</sup> that in 1804 a private bank at Workington received from a Dundee joint stock bank £2,000 in 20s. notes for the purpose " of keeping and distributing at our branches in this county ". This practice was even more general in Carlisle, where four out of the six private bankers established before 1810 issued Scottish notes.<sup>(111)</sup>

Directly and indirectly the financial arrangements of Cumberland rested upon the banks<sup>(1v)</sup> of Scotland for the greater part of half-a-century. It is not so easy to ascertain the extent of Scottish influence in Westmorland, although there are good reasons for believing it to have been considerable. Kendal possessed two private banking firms, Wakefield and Sons and Crewdson and Co., both of which, established in 1788, had pursued careers of unbroken prosperity, founding agencies in neighbouring towns and at Carlisle. Yet it seems that the currency of Westmorland consisted principally of Scottish notes, so that the influence of local banks must have been correspondingly restricted.

It is true that two of the Carlisle agents of Scottish banks soon became bankers on their own account, but they retained a close association with the country of their inspiration by continuing the issue of Scottish notes. Nevertheless, a first sign of emergence from Scottish dominance is to be seen in the principal city. The name of Joseph Monkhouse Head, a Quaker, born in 1759, is shown in the directory for 1787 as a grocer in Botchergate, and in 1804 he added to his flourishing business the practice of banking, adopting the local preference by issuing Scottish notes. The new venture prospered, and quite soon his direct interest in trade was wholesale only. The firm was strengthened by the

<sup>(4)</sup> R. S. Rait : History of the Union Bank of Scotland.

<sup>(11)</sup> C. W. Boase : A Century of Banking in Dundee (1867).

<sup>(111)</sup> They were : Mr. Hebson (1795-1813), David Carrick and Sons (1796-1828), Elliott and Forster (1806-1822) and, until 1836, J. M. Head and Co. *Bankers' Magazine*, 1845, vol. III, p. 17. See also subsequent pages of this chapter.

<sup>(1v)</sup> The Leith Banking Company, East Lothian Bank, Paisley Banking Company and Paisley Union Bank all had agencies in Carlisle at various dates between 1788 and 1836.

admission into partnership of his son, George Head Head, who increased the stability of the firm by marriage with an heiress.

The background for banking development was at this time favourable. Carlisle, now reaping the advantages of the construction of roads, had also become an inland port with the completion of a canal to the Solway in 1823. Accordingly, other private banking firms were established in the first years of the century, but these were not so fortunate as the grocer-banker, and two of them failed, though with very little loss to creditors, between 1824 and 1836. This withdrawal of banking facilities was intensified by uncertainty as to the fate of the Scottish small note, then threatened by restrictive legislation. The gap gave Head the opportunity to expand his business, besides leading to the creation of a new firm in the city in 1825, that of Connell and Co., the "Commercial Bank", grafted upon the trade of cotton-wool merchant carried on by John Connell in Fisher Street. There were now three reputable private firms in the city—Forsters, still the principal bankers, Heads and Connells—and the first and third issued their own notes. Although there was still in addition one Scottish bank branch, it is clear that the leadership of northern banks was failing before the advance of local firms.

With the advantages accruing from the stability of joint stock banks displayed at their very door-steps, the northern counties of England very early became sensible of the need for reform of monopolistic banking legislation, and were quick to take advantage of the Act of 1826. It was at this stage that the last rampart of Scottish bank dominance in the north-west may be said to have fallen. A proposal was put forward that the legislation suppressing the small note should be extended to Scotland, but the strong opposition arising in the northern country found support immediately south of the border.<sup>(1)</sup> The "gentry, land occupiers, merchants, manufacturers and tradesmen" of Cumberland and Westmorland memorialized the House of Commons in protest against the abolition of a currency valued for convenience and safety. The document explains "that from the contiguity of this district to Scotland, and from the constant intercourse existing between the two kingdoms, a large part of our money transactions has always been negotiated in Scotch paper, which has freely circulated among us nearly half a century. . . . The natural

<sup>(1)</sup> See page 372.

consequence has been that Scotch notes have formed the greater part of our circulating medium." It was suggested by the Member for the district that the Bank of England should open a branch in Carlisle. No doubt the memorial played its part in preserving the small note for Scottish banks, but the Government of the day was determined that the privilege should be confined to Scotland, and, despite a further series of petitions from the north of England, a bill was passed in 1828 "to restrict the circulation of Scottish notes in England".

This legislation hastened the formation of joint stock banks. In the earliest stages the spread of the system derived largely from the initiative of Thomas Joplin. Following his first successful establishment in England at Lancaster he proceeded to Cumberland, expecting that his personal friendship with the Member of Parliament for the district would pave the way for a new bank to serve Whitehaven and Workington. It was found impossible at that time to bring the leading men of the two towns into agreement on the matter, and Joplin, whose enthusiasm would not brook delay, abandoned negotiations in order to press forward development in other parts of the country. Nevertheless, his efforts in the north-west were not without effect. Both towns had suffered from banking troubles; in 1812 the sole private bank at Workington had failed, while in 1825 two firms at Whitehaven had closed their doors. Meanwhile the steady increase in production at the collieries and the growing coastal trade emphasized the need for stable banking establishments, and finally, in November 1828, a meeting of the townspeople of Workington, Maryport and Cockermouth was held at the sign of the Green Dragon in Workington to debate the proposal for a joint stock bank. The assembly passed a unanimous resolution to the effect that "as the trade and commerce of these towns have been seriously injured by the insecure system of banking which has hitherto prevailed, it is highly expedient that a bank shall be forthwith established in Workington, on principles combining general security with individual accommodation".

The work that Joplin had inspired now took definite shape. A bank was formed, under the title Cumberland Union Banking Company, using as guide-book the pamphlet of the reformer. It had a nominal capital of £200,000 in £100 shares, of which £10 was to be called up. At first it was hoped to carry through the

original scheme and include Whitehaven in the scope of operations, but the merchants and tradesmen of that town, true to the insularity of their time, were not to be tempted even by the invitation to appoint two directors. The new bank, therefore, with its small paid-up capital of £20,000, began business at Workington in March 1829.<sup>(1)</sup> Undismayed by disappointment at Whitehaven, the bank set out to justify its title by establishing branches. In the first year offices were opened at Cockermouth, Carlisle, Wigton and Maryport, and at the end of the year the note circulation amounted to £25,000. A fifth branch, placed at Penrith, was established in circumstances which mark the advantages of continuity possessed by joint stock organization. Early in the century the market town of Penrith was served by a branch of Forster and Co., the Carlisle bank, whose local agent was William James. In course of time James became a banker on his own account, and, if one may judge from his position as an original subscriber to the Cumberland Union, was sympathetic towards the new joint stock banks. As soon as the joint stock bank opened he began to pass all his business through its hands, thus giving the Cumberland Union an indirect footing, which was soon to become direct. Early in 1831 the death of William James brought an end to his financial activities, and might well have left the town insufficiently provided with banking facilities. The Cumberland Union Bank, however, already familiar with the nature and extent of the private banker's business, took up the threads and immediately announced "that it would be advantageous to the Company as well as a convenience to the Public to retain his connections by establishing a branch at Penrith". With this extension the bank was for a time content. An offer to act as agent at Brampton was received from William Carrick, a solicitor at that town who later played a considerable part in its banking arrangements, but the proposal met with the reply that the bank was not then inclined to extend.

The effects of the new legislation were no less certain in Westmorland, though the town of Kendal was still served by the two private banks established in 1788. Their notes were held to be as good as sovereigns, and no rival had arisen to challenge their sway. Even the crisis of 1825 left them undisturbed, and their stability allowed little opportunity for rival firms. The retirement

<sup>(1)</sup> The directors were: Richard Watts (chairman), Benjamin Thompson, James Brown, Thomas Wilson and Jeremiah Spencer.

of the Scottish banks opened the way for the establishment of a new institution; nevertheless, in view of the firm entrenchment of the private banks, it was an adventurous project for a group of merchants and business men to determine to form a bank providing "generous facilities for traders". In February 1833 the prospectus of the Bank of Westmorland was published inviting subscriptions to its capital of £250,000 in £100 shares on which £5 was to be called up. The response was overwhelming, and, to quote a local newspaper,<sup>(1)</sup> "applications were made for the amazing number of 4,864 shares". The project encountered the usual opposition and prejudice, expressed particularly in the suggestion that the privacy accorded by a private banker would be lacking in dealings with a board of directors. This was a stock argument against company formation, but it had more than usual force in a town as small as Kendal. To avoid the difficulty elaborate precautions were announced, ensuring that only two directors, unconnected with trade, should have access to the accounts and bills. The bank opened for business on July 1, and the directors<sup>(ii)</sup> immediately acquired a site in Highgate.<sup>(iii)</sup> This ambitious step aroused the spleen of the forces in opposition. A vituperative letter in a local paper<sup>(iv)</sup> derided the first year's profits as being barely sufficient to pay one-and-a-quarter per cent on the capital of £25,000 (a further £5 had been called up during the first year), and as having been lost in the "new shop in Highgate", which, the anonymous writer naively calculated, would not be paid for until 1861. The bank successfully overcame the malicious arithmetic and the suggestion that it was merely a collection of "note-hawkers", and made steady progress, taking the offensive by announcing in 1836 an increase of one-half per cent in the rate of interest on all monies lodged.

The two banks in Workington and Kendal were fairly launched upon long careers. Both began by cautiously allocating profits between dividends and reserve funds; indeed, a clause in the deed of the Bank of Westmorland required one-fifth of each year's profits to be placed to reserve. Within six years the Cumberland Union Bank had accumulated a fund of £10,000 and had raised the

<sup>(1)</sup> *Westmorland Gazette*, March 6, 1833.

<sup>(ii)</sup> They were: Edward Wilson (chairman), Tobias Atkinson, James Gandy, junior, and Daniel Harrison.

<sup>(iii)</sup> The building erected thereon is now the Kendal branch of the Midland Bank.

<sup>(iv)</sup> *Kendal Mercury*, August 2, 1834.

rate of dividend from five to seven-and-a-half per cent, a distribution equalled by its Westmorland neighbour. An explanation of such early success is to be found in the demand for greater banking facilities set up by growing trade and emphasized by the decline of Scottish participation in the finance of the border counties. Difficulties of transport were giving way before the advance of the railway, and the Carlisle-Newcastle line, the construction of which had begun in 1829, was now nearing completion. Schemes for other railways were in the air, linking the west coast towns and projecting northward to Glasgow. Carlisle experienced its full share of the burst of prosperity, and many of the larger business undertakings of the city, notably a pioneer firm of biscuit makers, were established about 1830; nevertheless, it was in Carlisle that a sharp check to progress was met about this time.

Hitherto Carlisle, still without a joint stock bank of its own, had escaped the worst phases of monetary disturbance, and it was correspondingly ill-prepared for the shock of bank failures. Towards the end of 1836 one or two commercial firms collapsed in circumstances involving losses to local banks. The customary exaggeration of difficulties was whispered around the city, so that, when early in November a recurrence of bankruptcies affected Forster and Co., a run upon the old-established firm took place. Even the reputation acquired in an unbroken career of three-quarters of a century could not withstand the attack of panic. Forsters, unable to obtain assistance from banks in other parts of the country, which were themselves strained by the general monetary crisis, were obliged to suspend payment. Immediately a public meeting of gentry and tradesmen resolved to issue a declaration stating that the failure of Forsters was not due to the state of the money market nor to any cause likely to affect banking establishments in general, and expressing full confidence in the city's remaining banks. The intensity of the emotions of the meeting may be judged by the report that the mayor, upon attempting to put the resolution, "was so over-powered by his feelings that the effort was in vain".<sup>(1)</sup> The public declaration, though signed by over one hundred persons, all pledged to accept the notes of existing banks, failed to calm the excited populace.

The shock to credit was alarming, and, as news of the suspension

<sup>(1)</sup> *Carlisle Patriot*, November 18, 1836.

spread out to the smaller towns and villages, notes on the Carlisle banks poured in from all sides. Every effort was made to obtain gold. James Connell went to London with "deeds and assurances to an immense amount", but could get no help from the feverish money market. The agent at the branch of the Leith Bank set off in chaise and four to the parent office, where he obtained a supply of coin; but nothing could stay the widespread alarm. After five days Connell's gave up the struggle, announcing bitterly that they were forced by a severe run to close their doors, though their assets were sufficient to pay all debts and leave a considerable surplus. The local newspaper<sup>(1)</sup> implored the residents to refrain from further panic, and described in the following vivid terms the swiftness of the blow:—

"But a week ago Carlisle proudly rejoiced in her prosperity; our manufacturers were all fully employed; new branches of trade were every day springing up, an increasing intelligent and industrious population betokened signs of accumulating wealth, the town was rapidly extending in every direction; not a cloud lowered over our prospects, when in a moment the whole was blasted, and that so suddenly and unexpectedly that no one foresaw the calamity, or could imagine the cause—

'As ships sometimes go down at sea  
when all around is calm.'

Every class from opulent merchant to servant shared in the dreadful calamity."

The picturesque report gives some impression of the wretchedness forced on the city, not by rash or unskilful banking, but by the folly of credulous depositors and note-holders.

Within a few days Carlisle was bereft of banks, except for the firm of Joseph Monkhouse Head and Co. Branch banks, too, were being closed down, the Cumberland Union Bank being affected in a quite unusual way. Just before these difficulties came to a head the Carlisle agent of the bank fell ill, and as a stop-gap his wife took over the duties of bank manager. Her courage was ill rewarded, not, be it noted, by any lack of strength in the Cumberland Union Bank, but by the cunning of private bankers. The bank, operating principally in Workington, with only a small connection in Carlisle, had no reason to fear the panic, but, naturally

<sup>(1)</sup> *Carlisle Patriot*, November 25, 1836.



enough, a plentiful reserve of specie was maintained at the branch. Accordingly the local private banker, Connell, after having stopped payment, hit upon a means of avoiding the fury of note-holders. He advised them to present his notes at the Cumberland Union Bank for payment, assuming that the temporary manageress in her unfamiliar duties would not have heard of his stoppage, or perhaps would not have grasped its full significance. The ruse was successful, and later the Cumberland Union directors called the banker sharply to account for "thereby taking advantage of Mrs. Hugh James". Subsequently the notes were paid in full, but the incident led to a decision by the Cumberland Union Bank to withdraw from the stricken area "with prudence, discretion, and scrupulous delicacy".

As the only local bank to survive the crisis, J. M. Head and Co. fell heir to a large proportion of the business of the district. Yet, with but a single bank left, the city clearly stood in urgent need of fresh banking facilities, and within a month the local papers were replete with prospectuses and plans for new joint stock banks. Three principal schemes were put forward under the titles of the Borough Bank, the Carlisle City and District Bank, and the Carlisle and Cumberland Bank. Of these, the last had been projected a short time before the crisis, but the share list was held open and establishment delayed until conditions became more settled. The Borough Bank announced a capital of £200,000, and undertook to issue only Bank of England notes. The City and District Bank entered the fray with brave words—it was to be a bank on the Scottish system in accordance with the "liberal spirit of the times", and a significant clause in the prospectus offered to all shareholders a cash credit of two-thirds of the amount paid up.<sup>(1)</sup> The capital of £250,000 was divided into unusually small shares of £5 each in a deliberate attempt to rival the other two projects in attracting capital. Optimistic bank prospectuses were customary at the time, and this flaunting specimen might have escaped comment but for two things. The wording, perhaps by chance but probably by intention, gave an

<sup>(1)</sup> This dangerous type of advance was often granted by early joint stock banks, (see pages 177 and 214), and occasionally advertised, as in this instance, to induce investment in bank shares. In 1867 it became illegal for a company to reduce its capital without the consent of the Court, and consequently doubts were cast on the legality of a company's dealing in its own shares in any way. In 1887 a final ruling made it illegal for a company to purchase its own shares, and now, by section 45 of the Companies Act 1929, the purchase of, or the extension of loans on the security of, its own shares by any company is prohibited.

impression of leaning toward Whig sympathies,<sup>(1)</sup> while publication was followed by a most unfortunate circular letter, the tone of which could not fail to arouse suspicion. The public discussion which followed was distinguished by devastating frankness, and the damage which the promoters had brought upon the bank by their excessive enthusiasm is amply illustrated by the following extract from a contemporary newspaper.<sup>(2)</sup>

#### “ CARLISLE BANKING

“ The many speculative schemes proposed, induces us once more to take up the pen on the subject which still forms the theme of every circle, the failure of the Banks. On this subject we have been taught a new lesson during the past week.

“ Our last number would apprise the readers that a new scheme had been started with a specious air of popularity engrafted on it by small shares, and great inducements to invest money, two-thirds of which might be drawn out by the subscribers. . . . We cannot quit the subject without publishing the following, which is one of the most extraordinary documents we ever met with. It is the copy of a circular, addressed to a number of gentlemen of this city :—

“ ‘ The Carlisle City & District Banking Company,

Carlisle, Dec. 7th, 1836

Sir,—On the part of the intended shareholders in the above Bank we ask if you are willing to have your name placed on the list of the provisional committee, preparatory to putting in nomination of proper parties for directors? We enter into no detail. The necessity of a great, safe and efficient Bank at the present crisis is paramount to every other consideration, neither could the most elaborate statement lead to other than the general truth, that wherever Joint Stock banks have been established and managed with prudence they have been advantageous to the districts and beneficial to the proprietors. The general feeling of the proprietors now associated is altogether in favour of the most cautious and prudential proceedings, and so much depends upon the

<sup>(1)</sup> A century ago politics played no small part in the formation and operation of new business establishments. (See pages 179 and 253).

<sup>(2)</sup> *Carlisle Patriot*, December 10, 1836.

directors—they feel, and particularly under painful passing events, that it would be conferring great benefit, not only on the intended shareholders, but upon this province at large, if any influential gentlemen, distinguished by their character, talent and station, would allow their names to be mentioned as being on the provisional committee prior to the election of directors,—among this number you are naturally looked up to. You will incur no risk or responsibility, as it is distinctly understood that you will be in no way pledged to take shares or become a shareholder. An immediate answer is requested.

We are, Sir, with great respect,

Your most obedient servants,

C. G. Mounsey, *Solicitor*.

Jas. Eddowes, *Secretary, Pro. tem.*

P.S.—It is thought in the first instance that the intended Bank will act with and issue none but Bank of England paper.'

"So it seems by this document that the provisional committee, who are to construct the engine and set it going, are not held to have either part or lot in the matter; they incur no responsibility, they need not even be shareholders, and yet they are to frame the code by which others are to be governed. The more direct course would have been to advertise for a committee, and this document literally has this effect; it is only saying, in other words, 'Wanted, a committee without risk, and with no share in the matter, to undertake the disposal of their neighbour's monies.' . . . But it is useless to dilate on this ridiculous scheme any further; it must meet with general derision."

By this time the situation in the city had eased a little; Connells had announced a payment of 20s. in the pound, while it was known that Forster and Co., with liabilities approaching £500,000, would be able to pay at least 15s. Nevertheless, the circumstances were hardly such as to encourage investment in banking projects, despite the acute need for them. The new companies, however, conceived an idea which would at once increase stability and engender confidence. The Borough Bank announced that the partners in Connell and Co., who had refused many requests to

reopen their business, had consented to join the new bank and bring with them their business connections. At the same time the Carlisle City and District Bank stated that Wakefield and Co., the private firm centred at Kendal, had agreed to make over their Carlisle branch,<sup>(1)</sup> one of the partners accepting a seat on the board, and also that the Leith Banking Company had relinquished its Carlisle branch and business in favour of the new bank, its erstwhile manager being appointed manager of the City and District.

Before this crowded period of rival projects had run to a close it became clear that there was not room in the city for all the proposed new banks. Accordingly the City and District announced towards the end of January 1837 that arrangements had been made to absorb the embryo Borough Bank so as to form a "well established and powerful institution". Impressed with the necessity of inspiring confidence, it was proposed to carry the process of consolidation still further, and negotiations were opened for pre-natal amalgamation with the Cumberland Union Bank and the Carlisle and Cumberland Bank, thus forming one large institution for the entire county. This far-reaching plan, however, was not carried through, nor was it any more fortunate upon revival half-a-century later. Nevertheless, the City and District Bank, with a foundation which drew so largely upon a group of established institutions, was much more securely placed than its contemporary. The original prospectus had by now undergone considerable modification, the capital being £250,000 in shares of £25 each, of which £12 10s. was to be paid up. With a strong, experienced board of directors,<sup>(2)</sup> and with the mayor of the city and the Member of Parliament for Cumberland as trustees, the bank opened for business on March 1, 1837, straightway deciding, contrary to the original intention, to issue its own notes.

Meanwhile, in the smaller towns the weakness and inadequacy of local banking until this time, coupled with the dominance of the Scottish note, had led to the development of a form of professional banking which became an outstanding feature of the district's financial arrangements. Where the trader-banker failed to establish himself the solicitor-banker filled the breach.

<sup>(1)</sup> In exchange for 1,600 shares of £25 with £12 10s. paid up.

<sup>(2)</sup> There were two honorary directors, Edward William Wakefield and James Eddowes, and five ordinary directors, James Heysham, Thomas Lonsdale, William Sowerby, James Thompson and Thomas Mounsey.

It was during the time of the Carlisle failures and the withdrawal of Scottish bank branches that the firm of Carrick and Lee, solicitors of Brampton, began to assume the functions of country bankers. A few miles away, at the old silver-mining centre of Alston, their relative by marriage and fellow in the legal profession, Joseph Dickinson, opened the Alston Bank. At Cockermouth Joseph Sanderson, described as "stamp-distributor" to the town, owned and managed the Cockermouth Old Bank, and issued the notes of Connell and Co. of Carlisle. The combination of function was open to grave abuse, for the client of necessity placed his affairs, financial and legal, wholly in the hands of one man, no less subject than others to the infirmities of the flesh and inevitable temptations of the spirit. Yet it must be recorded that the populace was at least as fortunate in the character of the holders of the associated offices as most districts employing the services of trader-bankers. The career of some of the solicitor-bankers was short, for at an early stage they encountered the powerful opposition of the new joint stock banks. Several of them elected to act as agents for one or other of the banks, and some sold their business connections outright. Thus at Cockermouth the Cumberland Union Bank established a branch, to the dismay of Joseph Sanderson. For a little while he clung to his private bank, but when the Carlisle City and District, continuing a policy of working through established connections, made him an offer, in 1837, he was quite ready to transfer his business. In some other towns, however, solicitor-bankers held on until a much later date.

For the first few years after establishment the City and District enjoyed its full share of the general prosperity. In accordance with the hint given at its birth it became the Whig bank, strong in the custom of traders and manufacturers, in opposition to the old Tory firm of Head and Co., powerfully supported by county families and landowners. There was ample scope for the new bank both at Carlisle and at Cockermouth, while the period was one of rapid recovery and prosperity in the industries of the north-west. The Bank of Westmorland, operating with a capital of only £22,000, was now able to pay a dividend of 12½ per cent, though difficulties of communication had enforced the closing of its only branch at Ulverston and were responsible for repeated refusals to open at Appleby. Possibly to meet the competition of the joint stock

bank, the two old private firms of Kendal amalgamated in 1840 under the name of Wakefield, Crewdson and Co. Again, the Cumberland Union, untroubled by the setback at Carlisle, had achieved a remarkably sound position. In 1841 the paid-up capital was doubled by transferring £20,000 from the reserve fund to the credit of the co-partners, while dividends as high as 20 per cent had been distributed. A year or two before it had assisted the Darlington District Bank<sup>(1)</sup> over a troubled period by a loan of £20,000, and the increasing pressure of business is revealed by instructions to agents to relinquish their other interests<sup>(2)</sup> and devote their full time to the service of the bank. Still operating from the Workington head office, and represented by five branches spread throughout the county, the bank was well on the way to becoming the largest financial institution of the district.

An index of the confidence inspired by these comparatively young institutions is given by the authorized note issues granted under the Act of 1844. The total for the two counties exceeded £200,000, of which about three-fourths was allocated to Cumberland. The growth of industry along the west coast is suggested by the fact that the three joint stock banks established in Workington and Whitehaven enjoyed a note circulation of about one-half of the total for the two counties. This, however, is a measure to be accepted only with reserve. Thus the banks with which this chapter is mainly concerned were accorded the following fiduciary issues:—Bank of Westmorland £12,225, Carlisle City and District Bank £19,972, and Cumberland Union Bank £35,395, a total of £67,592. The figures call for explanation. In Kendal a circulation more than three times as large as that of the Bank of Westmorland was in the hands of the newly-united private bankers, but the small amount accorded to the City and District Bank is attributable to sheer accident.

It will be remembered that the bank was founded upon a number of institutions, and one of these, the Carlisle branch of the Leith Banking Company, supplied also a manager to the new bank. Shortly afterwards the Leith Bank failed, and as a consequence the affairs of their former manager at Carlisle became seriously embarrassed, although his new employers were not aware of the trouble. For a time he endeavoured to right his position, but his

<sup>(1)</sup> See page 230.

<sup>(2)</sup> For example, that of bar-iron maker, sustained by the bank representative at Penrith.

difficulties increased until finally, in September 1843, he absconded, leaving his private account with the Carlisle bank overdrawn to the extent of £2,000 or £3,000. It was not long since the citizens of Carlisle had given outstanding evidence of their sensitiveness to banking rumours, and their nervousness again created a serious disturbance. Despite a declaration by the directors of the City and District that the loss was small and the bank in no way imperilled, a small run set in, and was not relieved until at a public meeting the leading citizens and tradesmen announced their confidence in the bank and pledged themselves to accept its notes. After a time calm was restored and the bank regained its old position, but it had in fact suffered an indirect loss. The period for the determination of authorized issues covered the twelve weeks preceding April 27, 1844, and as a result of the conjunction of misfortune the City and District received a fiduciary issue of little more than one-half the figure actually recorded as early as 1840—a striking example of the unfair operation of the Act of '44.<sup>(1)</sup>

By this time the construction of railways was bringing the counties of the north-west into closer association with the rest of England. The line from Carlisle to Newcastle was completed in 1838, and seven years later the west coast was linked with Carlisle by a railway to Maryport, extended to Whitehaven within two years. As a consequence the canal which joined Carlisle with the coast fell into disuse, and later the bed was made into a coastal railroad. The banks were active in these promotions, and the records of the Cumberland Union Bank, which altered its deed of settlement to authorize investment in railway stocks, reveal considerable loans for purposes of construction. The advances provided a convenient outlet for surplus funds in an area largely depositing, and as yet without sufficient industry and commerce to utilize the credit balances placed with the banks. The geographical situation of Kendal presented greater obstacles to railway building, and it was clear that the cost of establishing a connection would exceed the capacity of local investors. The railways of the south were petitioned to extend northward, and after long years of endeavour the established companies agreed to subscribe £500,000, while a canvass raised £700,000 to promote a railway from Lancaster to Carlisle in 1844. The success of this scheme, as of other lines in west Cumberland, owed much to the strong support

<sup>(1)</sup> Compare the North and South Wales Bank, page 182.

of George Head Head, who had become principal of the Old Bank in Carlisle on the death of his father, the founder, in 1841. It was discovered upon survey that the main line to the south could not approach Kendal nearer than Oxenholme, and that a branch line would have to be built to serve the market town. Accordingly a railway was projected, and warmly supported by the Bank of Westmorland, to link up Oxenholme, Kendal and Windermere.

The increased facilities of transport were important to the banks for reasons other than direct financing interests. The breaking down of age-long isolation suggested linking with other establishments, and almost immediately the Lancaster Banking Company made an offer for the purchase of the Bank of Westmorland. An indication of the small size of the bank is given in the terms, seriously considered before rejection, which were £3,500 in cash. True, the rate of dividend had been reduced in the previous year from fifteen to five per cent, but this fall was occasioned solely by the low interest rates ruling in 1843-4, a matter of special importance to a small bank paying a high rate for deposits and investing funds largely outside the town. The suggestion was several years in advance of a general movement in this direction, and the Bank of Westmorland preserved its independence for many more years. Indirectly, the banks shared in the increasing trade, external and internal, of the area. Thus in 1854 the Cumberland Union Bank, which had enlarged its head office six years earlier, paid a 10 per cent gratuity on the salaries of the staff "in consideration of the large profits made during the last year". Three years later it announced that the panic of 1857 had not reached Cumberland, and followed the statement by an interesting comment. No increase had been made in the charges for loans during the period of high rates, and none of the customers was asked to pay more than five per cent, "the directors having in view to make the Bank a real benefit and advantage generally to the trade of the district".

The success of the bank was a reflection of steadily increasing trade. By 1856 there were 28 collieries working in Cumberland, producing approximately a million tons of coal per annum from the west coast district. More important still, nearly one-half of the output was now consumed locally in the smelting of iron ore, again worked almost entirely at Whitehaven. The expansion in commerce inevitably suggested branch extension in an area now



more closely knit by safe and rapid transport facilities. The Cumberland Union Bank had not hitherto attempted to reopen in Carlisle after the withdrawal of 1837, but the development of the capital city into a great railway junction and trading centre made representation essential, and a branch was re-established in 1861. At this stage the capital of the bank, originally £20,000, had been quadrupled, entirely by transfers from surplus profits.

The lion's share of the city's banking business was still in the hands of the old partnership, J. M. Head and Co. As a deeply religious man, George Head interpreted his creed in practical measures, and worked indefatigably for many charitable causes in the city, his private activities ranging over Sunday schools, ragged schools, reformatories and soup-kitchens. It is still related that the old banker rode daily into Carlisle in an open carriage with postillions, scattering tracts on either side as he went. His political views were as fervidly held as his religious faith. A Tory and a staunch protectionist, he opposed the abolition of the corn laws by pamphlet and speech. Indeed, his generous enthusiasm at times outran his discretion; it was his financial support of the party candidate in 1847 that resulted in subsequent unseating of the recipient of his warm but illegal proofs of friendship. A few years after the death of his first wife, George Head became related to the London banking firm of Overend, Gurney and Co. by his marriage to Sarah, daughter of Samuel Gurney.

At this time the fortunes of the private firm stood at a high level. The west coast development had carried the activities of the partnership into industry through branches at Whitehaven and Workington, bringing the firm into closer contact with the Cumberland Union Bank. Not unnaturally, then, the Cumberland Union saw in Head's business a means of compensating for their late entry into Carlisle and Whitehaven, and of strengthening their board and reinforcing their connections. In 1864 the joint stock bank approached the private firm with an offer of amalgamation. It was necessary for the Cumberland Union to increase its capital in order to purchase a business of this size, and in the suggested rearrangement of capital it was the staunch old Tory banker, curiously enough, who made a condition well in advance of contemporary banking opinion. He insisted that the new company should register with limited liability under the Act of 1862. Negotiations were completed in December 1864, and the actual

transfer took place in the following February.<sup>(1)</sup> A balance sheet of the private firm immediately before absorption is reproduced below, and gives a measure of the extent of the business, as well as sidelights on the economic position of the towns mentioned. Thus it will be observed that at Carlisle and Brampton, which were predominantly agricultural centres, the credit balances far exceeded the bank's accommodation to customers, whereas at Whitehaven and Workington, the fast-growing industrial centres, the debit balances equalled or surpassed the bank's liabilities to customers.

BALANCE SHEET OF  
CARLISLE OLD BANK, JOSEPH MONKHOUSE HEAD AND CO.,  
JANUARY 31, 1865

LIABILITIES	£	ASSETS	£
Credit Balances at Carlisle	150,675	Cash in the Bank at Carlisle & Branches...	22,038
do. Whitehaven	47,503	Cash at call with Overend, Gurney and Co.	82,783
do. Workington	7,767	do. Agra and Masterman's Bank	103
do. Brampton...	11,015	do. Barnett Hoares and Co. ...	4,543
Deposits on Receipt at Carlisle ...	140,689	do. Bank of England...	3,052
do. Whitehaven	10,402	do. Leyland and Bullins* ...	190
do. Workington	3,273	do. Royal Bank of Ireland ...	1,692
do. Brampton...	24,934	do. Royal Bank of Scotland ...	4,370
Interest due on above Deposit Receipts to 31 December 1864 ...	3,843	do. Wakefield and Co.	285
Calls on Cumberland Union Banking Company Limited New Shares ...	3,240	Bills of Exchange and Promissory Notes ...	117,746
Bills received from Royal Bank of Scotland ...	753	Debtor Balances at Carlisle ...	97,849
Adjustment of Interest and Rebate ...	901	do. Whitehaven	57,774
	£404,995	do. Workington	14,175
Balance in favour of J. M. Head and Co.	13,596	do. Brampton ...	11,991
	£418,591		£418,591

\* Of Liverpool, see chapter V.

<sup>(1)</sup> The Cumberland Union increased its nominal capital from £200,000 to £600,000 by the creation of 20,000 new shares of £30 each. These were accounted £12 10s. paid, and four were issued for each of the 2,000 original shares of £100 with £50 paid up. Of the remaining shares 8,000 were issued for cash and readily subscribed, while 2,000 were handed to the partners of Head & Co., together with £55,000 in cash. Thus the subscribed capital became £540,000, and the paid-up capital £225,000.

George Head continued his associations with banking in Cumberland by accepting the position of chairman of the new board at Carlisle, the head office<sup>(1)</sup> of the bank being transferred from Workington on amalgamation. Enriched by the old-established connection of the private firm, and entering new territory through the branches at Whitehaven and Brampton, the Cumberland Union was easily the largest bank of the county. Nevertheless, it immediately set out upon a policy of further expansion. Branches were opened at Harrington, Kirkoswald and Hexham, Northumberland. This last extension, carrying the company over the county boundary, again reveals the decline of all forms of private banking. Charles Head and Co. were solicitors at Hexham, and it seems that, while the members of the firm were not related to the Heads of Carlisle, they too practised as bankers in the manner frequently recorded in Cumberland. In 1865 two branch banks failed in Hexham, and the partners resolved to withdraw from banking, the new branch of the Cumberland Union taking over their business.

This rapid development met with a sharp check in 1866 from an unexpected quarter. The story of the Overend, Gurney failure and the ensuing difficulties is told elsewhere,<sup>(2)</sup> but here it falls to be recorded that Cumberland, having enjoyed immunity from the crisis of 1857, was not so fortunate nine years later. George Head Head, as has been noted, was related to Samuel Gurney, and bonds of affection were reinforced by business ties. He and his bank were considerably involved in the failure, and there were not a few, envious of the success of the bank, who were ready to enhance the difficulties and cast doubts upon the stability of the company. An insidious attack was launched in the form of a circular letter, and the bank was obliged to call a public meeting to deny unfair and untrue allegations. In fact the bank was quite sound, and possessed two strong defences in the evidence of published accounts and the character of George Head Head. The potential loss to the bank arose largely by way of Overend, Gurney shares held as security for advances; loans granted by consent of the full board upon a security they all accepted. Immediately the extent of the failure was known, Head expressed his intention of meeting from his private fortune any deficiency on this account, and, over-ruling the protests of his colleagues, actually transferred

<sup>(1)</sup> Now the Court Square, Carlisle branch of the Midland Bank.

<sup>(2)</sup> See page 302.

600 of his bank shares as security for the pledge. The process of liquidating Overend, Gurney required further calls from the shareholders, and Head himself drew attention to the increasing liability of the bank. Unsatisfied with the steps he had already taken, he now transferred to the bank a total security of little less than £80,000, expressing his anxiety to preserve his fellow shareholders from loss in a letter from which the following extract is taken :—

“ In making this disposition of so large a part of my personal estate I am influenced by a desire that the Bank shall not be injured by the calamity which has befallen the great house with which I am connected by family ties, although I feel that no further responsibility attaches to myself than to any of the other directors with whom I was associated when the loans were contracted on the security of the shares in Overend & Co.”.

In this way the bank was generously served by its principal director, and the difficulties were overcome without serious damage.

One of the few remaining solicitor-bankers disappeared about this time. It was the market town of Brampton that provided the setting for a minor tragedy. Early in the century this prosperous agricultural centre, seven miles from Carlisle and with a population of only 2,000, did not possess a bank. The breach was filled about 1830 by William Carrick, solicitor in the town. As the years went by his taste for country banking increased, and was possibly encouraged when he took a partner. Carrick and Lee, calling themselves attorneys and bankers, developed an active business of deposit and loan among the farmers of the surrounding hills, and opened a branch at Haltwhistle. The partners multiplied their positions of public responsibility and trust; clerkships and stewardships to county authorities and landowners showered upon them, and Carrick even added brewing to his diverse occupations. It was this multiplicity of interest that brought about the downfall of the bank. Carrick, unable to devote personal attention to the banking side of the business, left it completely in the hands of a confidential clerk, and he, unworthy of his employers' confidence, sought personal and quick profit rather than permanence in his position. Following a series of minor frauds, he decamped in 1872, leaving a deficiency of a few thousand pounds. The old attorneys, thus rudely

awakened to the risks they were running, decided to relinquish banking. The business was transferred to the Carlisle City and District Bank, which, having already extended to the west coast at Workington and Maryport, seized upon an opportunity of adding two more branches to its list.

By this time, once again, the county was in the throes of great changes. A minute of the Cumberland Union Bank reports a resolution to open a branch at Holborn Hill, as there were "large iron mines in operation and several blastfurnaces in course of erection". This was in 1865, and three years later the same bank offered special rates for deposits of £1,000 and upwards if left for an agreed period. Evidently it could now find ample employment for funds, and the cause is not far to seek. Bessemer's process had been discovered, and it was found that the pig-iron manufactured by the old Workington Iron Company was suitable for the production of steel. The prevailing prices for iron and steel were rising, and every encouragement was offered to find a substitute for Swedish ore, previously the principal raw material for steel. Consequently the west Cumberland area was rapidly exploited. Hematite ores were sought with a fervour akin to that of the gold diggers of California or the diamond seekers of Kimberley; indeed, the ore became known as the "red gold of the West".<sup>(1)</sup> Immense deposits of hematite were found in west Cumberland and Furness; blastfurnaces were set up, and a new call upon local collieries arose; the Cumberland Union Bank opened branches in Egremont and the Cleator Moor district.

Perhaps the most remarkable feature of the change was the rise of Barrow-in-Furness. Although actually a north-westerly extension of the county of Lancashire, the Furness district is geologically associated with west Cumberland, and is rich in hematite ore. Nevertheless, for the first half of the nineteenth century the area's interest in industry was limited to an irregular export of iron ore to South Wales. With the advent of railways the output of ore rapidly increased, and by 1857 had multiplied ten times, about half-a-million tons being raised, almost wholly for transport to other parts of the country. Two years later blastfurnaces were set up at Hindpool, and within five years over one-third of the ore produced was consumed locally. Then came the full development of the Bessemer process by the establishment

<sup>(1)</sup> W. Wilson Barnes: article in the *London Iron Trade Exchange*, October 25, 1884.

of a large steel company at Barrow in 1864, and its merging with the Hindpool smelting works shortly afterwards. In 1841 Dalton with Barrow possessed 3,200 inhabitants, while Barrow itself is said to have boasted only seventeen houses and less than one hundred people. Twenty years later the figure was 9,000, but by 1881 it had shot up to 61,000, and at the turn of the century the population, then over 70,000, exceeded that of the county of Westmorland.

The banks of Cumberland were closely concerned in this development.<sup>(1)</sup> The Cumberland Union opened at Barrow in 1871, and the minute books are eloquent in the number of loans to hematite companies, collieries, rolling mills and a new textile concern, formed to utilize the plentiful supplies of female labour. The renewed activity in the iron trade of the west coast followed a development closely allied to that of the Clyde area, and it is not surprising to find that the earlier withdrawal of Scottish banks was reversed, though the new venture was undertaken by one which previously had had no place in the banking arrangements of Cumberland. A sudden incursion was made by the Clydesdale Bank in 1874 by the establishment of three branches at Carlisle, Whitehaven and Workington, the step being explained<sup>(11)</sup> by the bank's strong connections in the iron trade of the west of Scotland and the fact that many large Scottish ironmasters had extended into Cumberland. This remarkable demonstration of industrial pressure aroused violent opposition in London and other parts of England, but seems to have been received with comparative calmness by Cumberland itself. Even the local banks would appear to have played an unimportant part in the opposition. The Cumberland Union Bank, for example, contented itself with signing a letter of protest to the Chancellor of the Exchequer and appointing its general manager as one of a deputation to London. Such opposition as was aroused proved futile, and, as far as Cumberland was concerned, the matter was quickly accepted as settled.

<sup>(1)</sup> Compare the development of Cleveland, chapter VII.

<sup>(11)</sup> In evidence before the Committee on Banks of Issue, 1875, by the manager of the Clydesdale Bank. He referred to his bank's "extensive connection" with the "iron trade and large iron masters, nearly all of whom had establishments in Cumberland". See also page 396. The invasion was quite different in motive and inspiration from that by the Scottish agencies established in the early part of the century. They had been planted by banks distant from Cumberland almost exclusively for the purpose of spreading their note issues, and were not the result of industrial development.

Even before this some of the Cumberland banks were making liberal use of the surplus funds of Scottish institutions. At one time, for example, the Cumberland Union Bank was enabled to make heavy loans to steel companies by virtue of a large credit from the London office of a Scottish bank. Local banks were already discovering that the size of industrial units had outstripped the limited financial resources they could command, and the minute books around 1880 are crowded with suggestions for amalgamations. Negotiations between the Cumberland Union, the Carlisle City and District, the Carlisle and Cumberland, the Bank of Whitehaven and the Bank of Westmorland are all mentioned in the Cumberland Union records, yet none of the proposals was carried to completion. Possibly the principal obstacle lay in the fact that no one of the banks far surpassed the others in size, while, in addition, it is probable that the banks as a whole had over-lent. Certain it is that they were about to encounter losses which caused them grave embarrassment.

Thus the Carlisle City and District Bank became involved, mainly through frozen loans to the local granite industry and heavy commitments in the iron trade, in troubles which the difficulties of 1878 brought to a head. The reserve fund was depleted by bad debts to the extent of £50,000 in that year and £30,000 in the following year, leaving only £50,000 available. The strained position is indicated by the fact that loans, at a total of £548,000, exceeded to a considerable extent the combined figure for deposit and note liabilities, while a by no means large cash holding was unsupported by any investments at all. The bank sought a solution of its difficulties in amalgamation, and approached both the Cumberland Union and the Carlisle and Cumberland Bank. The second project reached a point of public announcement and shareholders' meetings, but was abandoned on a dispute over terms. Eventually the shares were written down by one-fifth and, most important of all, the bank re-registered with limited liability and a new and modernized memorandum and articles. Thus equipped it was able to raise fresh capital and continue its career. Nevertheless, the banks were by no means out of their difficulties. The rise in the price of iron during the 'seventies had quickly reached a peak and was succeeded by a steady fall which brought anxiety to the iron-masters and the banks. By 1883 the depression so extensive in

the black country had reduced to bankruptcy many west Cumberland firms which only a few years earlier had enjoyed abounding profits. "Your iron industry is dead, dead as mutton; your coal industries . . . are languishing" exclaimed Lord Randolph Churchill in a speech<sup>(1)</sup> at Blackpool, a vantage point from which he could not but look north to Cumberland for support of his gloomy analysis. The banks of the north-west found their temporary difficulties symptomatic of a widespread contraction which brought heavy losses. Thus the Cumberland Union Bank was also experiencing a strain, with large sums locked up in collieries, iron mines and steel works.

Even the Bank of Westmorland was involved in difficulties, though, with its capital of only £26,000 and credit accounts reaching perhaps £250,000, it was in no position to venture into the west coast or Barrow. The key to its troubles lay in the fact that two-thirds of its customers' balances were in the form of deposit accounts attracted by a relatively high rate of interest, and the bank, finding difficulty in employing these funds remuneratively in the neighbourhood, embarked upon a curious and costly venture. A large sum was lent for railway development in Wales upon the security of the railway stocks. Quite early it became necessary to provide for losses, and a suspense account steadily accumulated, to reach £21,000 in 1877. During this year the directors made a statement to shareholders quoting the Welsh loan at £73,000, against securities then valued at less than one-half that amount. The deficiency was sufficient to swallow up the whole of the guarantee fund as well as the special suspense account, but fortunately relief came from the acquisition of some of the Welsh railways by the London and North Western group. The ensuing rise in the value of the railway securities made it possible for the bank to clear the debt with the aid of the suspense account, leaving the guarantee fund intact. After this sobering experience the bank confined its activities strictly to a familiar area, and sought an outlet for funds by opening branches at Sedbergh, Bowness and Ambleside, where the attractions of the lake district as a touring centre were increasing the scope for business.

At this late date probably the last of the solicitor-bankers of Cumberland turned from private banking. Joseph Dickinson, of Alston, was admitted as a solicitor in 1834, and was the oldest

<sup>(1)</sup> Delivered in 1884, and quoted in J. H. Clapham: *An Economic History of Modern Britain*, 1850-1886.



practitioner in Cumberland. His connection with banking began at least as early as 1836, when he took up the Alston agency of the newly-formed Newcastle, Shields and Sunderland Joint Stock Bank. Eleven years later his principals foundered during the crisis, and Dickinson, with a strong business connection in the town of Alston and the example of his relatives, Carrick and Lee, at Brampton to encourage him, became a banker on his own account. The Alston bank was successful, and worked up a thriving local business which survived long after Carrick and Lee had given up their bank at Brampton. Dickinson, like his fellows, added a long list of duties to his two main professional occupations—clerkships, trusteeships, stewardships and treasurerships all fell within the scope of his activities. It was stated<sup>(1)</sup> that an account of his life would be “practically the history of Alston Moor for three-quarters of a century”. Yet, despite these varied concerns, it was not until the old banker was nearly eighty years of age that he agreed to negotiate for the sale of the business. After approaching various banks, he eventually sold to the Carlisle City and District in 1890, remaining as their manager until his death five years later. The price paid for the business was calculated upon previous profits, and took the form of an annuity of £550 for five years. A final balance sheet of the Alston bank shows liabilities of £62,000 on current and deposit account, with loans and investments amounting to only £20,000 and with cash of £8,000. The remaining £34,000—more than one-half of the total liabilities—was lent to Dickinson himself on the security of his own property, including a charge on his house and estate.

This concluding triumph of joint stock banking in the north-west counties had scarcely been accomplished when the local banks themselves entered upon the early stages of progress towards closer cohesion in banking. The Bank of Westmorland, though registered as a limited company in 1888, still retained the character and restricted scope of a private bank.<sup>(2)</sup> The misfortunes of 1878 had long been forgotten; the bank was paying regular dividends of 17½ per cent on its small capital; and as late as 1890 it had answered with “a polite No” a proposal for amalgamation from the Preston Banking Company.<sup>(3)</sup> Three years later the outlook was suddenly disturbed by the advent of the Bank of

<sup>(1)</sup> Obituary notice in the *Carlisle Journal*, November 29, 1895.

<sup>(2)</sup> This can be seen in the summarized balance sheet figures on page 139.

<sup>(3)</sup> See page 153.

Liverpool in the place of Wakefield, Crewdson and Co., and the local joint stock bank could no longer hope to enjoy a continuance of tranquil prosperity. The Midland Bank had just entered Lancashire by taking over the Manchester Joint Stock Bank, and was already negotiating with the Preston Banking Company. Almost immediately an offer<sup>(1)</sup> was made and accepted for the absorption of the Bank of Westmorland, and thus, in July 1893, the Midland Bank secured a footing in the district only a few weeks after the arrival of the Bank of Liverpool.

From this near approach the Midland looked naturally to Cumberland, and three years later negotiations were opened for amalgamation with the Carlisle City and District Bank. This institution had steadily recovered from the troubles of 1878, and, with eight well-spread branches, had regained a sound position and a strong connection. The reserve fund had accumulated until it equalled the paid-up capital of £100,000, while a dividend of 14 per cent had become usual. The directors, however, realizing that further extension on the existing capital was not possible, decided to recommend the proposals<sup>(2)</sup> to the shareholders, and in August 1896 the City and District Bank became the Cumberland section of the Midland. Unlike the Carlisle bank, the Cumberland Union was in no position to negotiate for acceptable terms of absorption, although it was possessed of a capital of £250,000 and operated through nineteen full branches and eight sub-branches spread over the north-west. The undertaking had in fact by no means shaken off the losses, actual or anticipated, of the 'eighties, and in 1894 the auditors' certificate to the balance sheet contained an ominous reservation concerning an item for sundry advances, amounting to £450,000, upon which no interest was taken and a loss was to be expected. Later it was revealed that the sum was made up of loans to two large iron companies, and that about one-half of the amount would be a total loss. The assets also included shares in a local iron mine, valued at £40,000. The bank had been forced to assume the unfamiliar occupations of ironmaster and owner-manager of a colliery. Nevertheless, it struggled on, slowly reducing the large sums outstanding as losses, and enjoying an undiminished share of local confidence.

<sup>(1)</sup> The terms were: £34 cash for each Bank of Westmorland share (of £100, with £12 paid up). In addition, a further £13 per share was distributed as the surplus value of investments above their balance sheet figure, making in all £47 per share.

<sup>(2)</sup> The terms were: two Midland shares (of £60, with £12 10s. paid up) and £11 10s. cash for seven Carlisle City and District Bank shares (of £25, with £5 paid up).

In 1899, however, the crippled company met with further trouble : it was discovered that large frauds had been perpetrated at the Hexham branch, involving about £40,000 and certain to result in considerable loss both directly and indirectly. Again, a year later the failure of Dumbell's Banking Company, in the Isle of Man, found the Cumberland bank large creditors. The effect of such a series of misfortunes can be imagined ; the auditors' certificate on the balance sheet was qualified at length, and the true position of the bank was confused by a number of contingent entries. Moreover, the bank was now meeting competition from the Midland, with all the resources of a large London institution. Happily for the directors' peace of mind, relief was offered from an unexpected source.

One of the larger country banks at this time rapidly growing was the York City and County Banking Company,<sup>(1)</sup> an institution which had already gathered invaluable experience in the industrial development of the north-east coast. The bank was pressing a policy of amalgamation, and saw in the valuable connection of the Cumberland Union an opportunity of extending into the west coast iron district. Terms<sup>(2)</sup> were rapidly agreed upon, and in 1901 the Cumberland Union became part of the York City and County Bank. Seventeen years later the York City and County, by then absorbed into the London Joint Stock Bank, found its way into the Midland system, strengthening still further its connection in an area replete with history of a peculiarly varied kind. Thus Cumberland and Westmorland in the course of a century passed from Scottish dominance through local isolation into the stage of unity with the rest of Great Britain, and the process of banking coalescence followed closely the corresponding economic changes.

<sup>(1)</sup> See chapter VII.

<sup>(2)</sup> The terms were : one York City and County Bank share (of £10, with £3 paid up), for one Cumberland Union Banking Company share (of £30, with £12 10s. paid up).

APPENDIX TO CHAPTER IV

EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

(£000 omitted)

Name of bank	Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills
<b>BANK OF WESTMORLAND</b>						
1880 ...	26	15	12	306	220	?
1890 ...	26	15	9	316	143	?
<b>CARLISLE CITY AND DISTRICT BANKING COMPANY</b>						
1840 ...	57	7	153		116	105*
1850 ...	58	19	166		134	106*
1860 ...	58	19	20	293	212	179*
1870 ...	80	71	20	388	384	189*
1880 ...	93	81	20	425	469	51
1890 ...	100	95	20	645	573	55
<b>CUMBERLAND UNION BANKING COMPANY</b>						
1870 ...	225	65	35	1,120		1,025
1880 ...	250	150	32	1,740		1,658
1890 ...	250	160	32	1,976		1,703
1900 ...	250	160	32	2,132		1,625

\* Including cash

CHAPTER V  
"COTTON BANKS"

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The Midland Bank entered Lancashire in 1892 by absorbing the Manchester Joint Stock Bank; two years later the Preston Banking Company was taken over, and in 1898 the Oldham Joint Stock Bank. In 1896 a branch had been opened in Liverpool, and in the following year the foothold was strengthened by amalgamation with the North Western Bank. An old-established Liverpool private bank, the firm of Leyland and Bullins, was absorbed by the North and South Wales Bank in 1901, and this also eventually became part of the Midland system by the absorption of the "Wales Bank" in 1908.

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**I**MMEDIATELY south of Cumberland and Westmorland is an area totally different in configuration and in economic history. For well over a century the economic activities of the county of Lancashire have been concerned predominantly with the manufacture of cotton; so much so, indeed, that the name of the textile and of the district have become inseparable. Together they provide an exceptionally early example of application of the factory system, necessitated by the swift adoption of inventions that crowded the period towards the end of the eighteenth century. In the circumstances of a favourable climate and geographical conformation, the pioneer work of such men as Arkwright, Hargreaves, Crompton, Kay, Cartwright and Horrocks led to the growth of numerous large and busy towns, thriving upon the new manufacture. As early as 1821 there were thirteen towns in Lancashire with more than 20,000 inhabitants, while Liverpool and Manchester together accounted for more than 328,000. By the middle of the century eleven towns each possessed more than 50,000 inhabitants, and in 1901 there were twice as many.

Even before the nineteenth century opened, Lancashire was leading the way in the development of the factory system, using the swift-running streams of the Pennines as a source of power for spinning mills placed high up in the valleys. Not until the eighteen-thirties, however, did weaving become a factory industry, and for many succeeding years the hand-loom continued to provide employment for large numbers of out-workers scattered over the

BANKS IN LANCASHIRE FORMING PART OF THE  
MIDLAND BANK CONNECTION

PRIVATE BANKS

Estab- lished	Firm	Town	Absorbed by
1807	Leyland and Bullins ...	Liverpool ...	North and South Wales Bank, 1901
1807	Moss and Co. ... ..	Liverpool ...	Became North Western Bank Limited, 1864
1863	Robertson, Fraser and Co.	Manchester ...	Became Manchester Joint Stock Bank, 1873

JOINT STOCK BANKS

1836	North and South Wales Bank (head office at Liverpool)	...	Midland, 1908. See chapter VI.
1844	Preston Banking Company	... ..	Midland, 1894
1861	Rochdale Joint Stock Bank	... ..	Oldham Joint Stock Bank, 1882
1864	North Western Bank (Liverpool)	... ..	Midland, 1897
1873	Manchester Joint Stock Bank	... ..	Midland, 1892
1880	Oldham Joint Stock Bank	... ..	Midland, 1898

county. By the time that weaving was coming to rely upon power-looms the use of steam to drive the machinery was becoming more and more general, and the rich coal seams of Lancashire now played their part in providing a basis for further rapid expansion of the industry and its still closer concentration. Approximately fifty-six million pounds of raw cotton were imported in 1800, but fifty years later the quantity had multiplied eleven times over.

Thus the manufacture of cotton leapt into the front rank among the economic activities of Great Britain, until by 1851 it was providing employment, if printers and dyers be included, for over half-a-million people, by far the largest total among British industries, surpassed only by agriculture and domestic service in the numbers occupied. Quite early cotton had ousted the local wool and linen industries from Lancashire, but at the same time it gave rise to important ancillary trades. Not only were the collieries and iron mines rapidly exploited, but the making of textile and other machinery became a large local industry, while dyeing, bleaching and the manufacture of chemicals added their quota to the activities of the county. The cotton industry was peculiar in that its raw material was drawn wholly from abroad, at first mainly from the West Indies, but quite soon almost entirely from North America. The dependence upon foreign sources of supply, together with the large export of cotton goods, made heavy calls upon shipping and merchanting services, while a connected trade in the early stages was that of dealing in slaves for the cotton plantations.<sup>(1)</sup>

The early importance of Manchester and Liverpool is therefore easily understood; the first as a great marketing and manufacturing centre for the products of the industry, and the second as a port, ranking only after London, and serving a densely populated area as well as one of the largest industries of the world. Yet, in spite of Lancashire's advanced industrial organization, banking was rather later to develop than in some other areas. No banks are recorded in Manchester until 1771 or in Liverpool until 1774, and when eventually they were formed, they do not appear to have acquired note circulations except in a few unimportant instances. The absence of the local bank note from the financial machinery of Lancashire and its industries, though

<sup>(1)</sup> See biographical sketch: Thomas Leyland.

commented upon by many authorities, does not admit of simple explanation. It seems probable, however, that the textile trades had evolved a system of credit and currency before the arrival of the first country banks and bank notes in England, and that they continued to employ methods which to some extent acted as a substitute for the more usual development of banking. In the manufacturing districts, in contrast with agricultural areas, bills of exchange for small amounts were widely used in the manner of bank notes, passing from hand to hand with numerous endorsements. Lancashire, as a predominantly industrial county, was most likely to exhibit the full development of this system, more particularly as its raw material was drawn from abroad. To some extent this explains the striking divergence in the course of financial history as compared with Yorkshire, where, in process of industrial development, provincial banks arose early and enjoyed extensive note circulations.<sup>(1)</sup> Yorkshire, with its wealth derived from a prosperous agriculture, and its principal industry supplied with raw material from the flocks of the moors, presented typically fruitful ground for banking progress, and it was only in the West Riding that the bill of exchange was used to some extent as currency. Lancashire, on the other hand, with its large areas of infertile land, was of less account until the advent of a thriving industry. It seems likely, moreover, that a strong local feeling existed in Lancashire against indigenous note issues, and this may possibly have been deeply rooted in bitter experience of earlier years that has escaped the record of history. In any event, private banking became firmly established in the principal towns of Lancashire during the last quarter of the eighteenth century, and found profitable scope in the swiftly rising industry of the county, even though not enjoying note circulations as a source of working capital and revenue. With two such banks, both founded in Liverpool in the early years of the nineteenth century, this story is intimately concerned.<sup>(2)</sup> The first of these was opened in January 1807 by Thomas Leyland, and the second later in the same year by John Moss.

Thomas Leyland was a typical product of his town and period.<sup>(3)</sup> By the beginning of the nineteenth century he was a wealthy

<sup>(1)</sup> See chapter VII.

<sup>(2)</sup> Both are described in John Hughes: *Liverpool Banks and Bankers, 1760-1837* (1906).

<sup>(3)</sup> See biographical sketch: Thomas Leyland.



merchant and shipowner, largely interested in the African slave trade, and enjoying a well-earned reputation for shrewdness and mercantile sagacity. Nor was he an amateur in banking, for in 1802 he had joined the oldest bank in Liverpool as its senior partner. This was the firm of Clarkes and Roscoe, established in 1774 by William Clarke, a linen draper of Liverpool. William Roscoe, a member of the partnership from 1800, was the famous antagonist of the slave trade, and there are reasons for believing that it was his humanitarian activities that led to the early withdrawal of Leyland from the bank, in December 1806. Within ten days Leyland was putting to good use his four years of banking experience; in January 1807 he established a bank on his own account, taking into partnership a nephew, Richard Bullin, and under the title of Leyland and Bullin the firm began business in premises in York Street, adjacent to Leyland's shipping office. Shortly afterwards, the slave trade having been suppressed, Leyland devoted himself entirely to the banking business and the public affairs of his town. About 1815 a second nephew, Christopher Bullin, joined the partnership, which then became Leyland and Bullins, while a year later the bank was removed to new premises in King Street—premises that stand today as a bank, substantially unchanged for over a century.<sup>(1)</sup> For nearly as long the name of Leyland and Bullins remained on the list of Liverpool bankers, as one of the most substantial and reputable private country banks in England. Not until 1901 did the partnership finally succumb to long-prevailing tendencies by amalgamating with the North and South Wales Bank.

John Moss also was a merchant and shipowner, succeeding to his father's extensive interests in 1805, at the early age of twenty-three. Very quickly he began to widen the range of his business, and towards the end of 1807 opened a bank in Exchange Buildings under the title Moss, Dales and Rogers. The Dales were Liverpool drysalters, related to Moss by marriage, who during the Napoleonic wars had taken part in a characteristic speculation of the port and the period by becoming privateer owners. Rogers is believed to have been engaged in insurance and brokerage business. As with Leyland and Bullins, the bank was soon in need of additional office space, and in 1811 the business was moved to newly-erected premises in Dale Street, a site on which also a bank still stands,

<sup>(1)</sup> They are now the King Street, Liverpool branch of the Midland Bank.

though the premises have been reconstructed.<sup>(1)</sup> For nearly a century the bank in one or other of its forms continued to serve Liverpool as a local institution. In 1864 it was registered as a limited company under the title North Western Bank, members of the Moss family remaining as principals in the new undertaking, and eventually, in 1897, it amalgamated with the Midland Bank.

Both of these banks, then, arose directly out of the trades of Liverpool; both were intimately connected with shipping and its associated activities. As has been shown, the industrial development of Lancashire at this period pressed swiftly ahead, bringing an ever-growing population within the county boundaries and a rapidly swelling volume of business to the principal port. The population of Liverpool vied with that of Manchester and Salford, and more than doubled, to reach nearly 300,000, in the twenty years to 1841. During this period the partners of both private banks shed most of their trading activities, though they remained active in other ways in the life of Liverpool. Thomas Leyland was prominent in public affairs, while John Moss, in co-operation with other well-known Liverpool business men, began in 1822 the heavy task of promoting the pioneer railway from Liverpool to Manchester. For three years he acted as chairman of the committee, steadily overcoming the manifold obstacles placed in the way by privileged opposition. When eventually the first meeting of proprietors was held in 1826, Moss was elected deputy chairman of the company. His interest in transport remained unabated, despite the hostility displayed from many sides, and in 1831 he became chairman of the Liverpool and Birmingham Railway.

Shortly after the beginning of railway construction the first joint stock banks were formed, and Lancashire was the seat of a number of early experiments. It was at Lancaster that the first new joint stock bank in England was promoted under the guidance of Thomas Joplin, and within a short time, more especially in the years of optimism to 1836, the example was followed in Manchester, Liverpool and several other Lancashire towns. During this period, for example, the North and South Wales Bank was established in Liverpool, but as this institution was far more deeply concerned with North Wales than with the town of its

<sup>(1)</sup> They are now the Dale Street, Liverpool branch of the Midland Bank.

birth, its history is related elsewhere.<sup>(1)</sup> The only purely Lancashire joint stock bank of this early period which eventually became part of the Midland system was the Preston Banking Company, and this example of local enterprise was relatively late in formation, being established in 1844.

The history of Preston reveals a marked change of direction during the last quarter of the eighteenth century, with the establishment of the cotton industry. There had been links with the earliest days of the industry, for Richard Arkwright was born in Preston in 1732, though he had removed to Bolton before inventing, in conjunction with Kay, machinery for spinning cotton by rollers. Again, it was by the financial support of John Smalley, a liquor merchant of Preston,<sup>(2)</sup> that the inventors were enabled to pursue experiments that eventually produced the water frame. During 1791 John Horrocks came to Preston, and prospered so well that in ten years his firm alone erected and operated as many as six mills. Thus the manufacture of cotton was strongly founded, and rapidly brought Preston to the position of third town in Lancashire. With the geographical specialization that concentrated weaving more and more exclusively in the northern part of the county, and spinning in the south, Preston grew to be concerned almost entirely with the weaving section of the industry. The activity of the town swiftly increased as transport facilities were improved, and in the twenty years from 1831 its recorded population increased more rapidly than in any equal period before or since; it rose from 36,000 to 72,000 persons. One result of this expansion in the trade and industry of the neighbourhood was a demand for increased banking service. True, the town already possessed two long-established private firms, and two branches of joint stock banks; yet it is not surprising to find leaders of local industry dissatisfied with existing credit facilities. More especially was this so when the Manchester and Liverpool District Bank, following a heavy loss in 1837, severely restricted the operations of its branches, including that at Preston.

With the example of numerous other Lancashire towns as a stimulus, it was not long before a plan for a new joint stock bank was being discussed, and in April 1844 a project for founding the

<sup>(1)</sup> See chapter VI.

<sup>(2)</sup> He later became a cotton manufacturer in Holywell, and his son Christopher was a founder of the bank of Douglas, Smalley and Co., at Holywell. See page 170.

Preston Banking Company was being energetically canvassed. It received the support of leading manufacturers and influential citizens, and, the requisite capital being quickly obtained, the bank opened for business within a month. The former branch manager of the Manchester and Liverpool District Bank was appointed manager of the new bank, while three other members of his staff came with him. Thus, with a paid-up capital of £100,000, in shares of £100 with one-half paid up, the first local joint stock bank in Preston began operations in Fishergate, the chairman of the board being George Gradwell.<sup>(1)</sup>

The bank was born in a stormy period of English banking legislation. In chapter I the two Acts of 1844 were described, and it will be remembered that the second took the form of a banking code which required all new joint stock banks to apply for charters and submit to unwelcome regulation. The Preston Banking Company had only just been established when this legislation was passed, and a provision in the code required recent formations to obtain a charter and conform to relatively strict control within a year. Accordingly, just before a full year had elapsed, the bank applied for Letters Patent and was granted a charter.<sup>(2)</sup> It is particularly apt to trace one of the very few chartered banks in England to "proud Preston", a town famous for its collection of royal charters.

At the first meeting of shareholders, in August 1845, the directors of the Preston Banking Company were able to report that the bank had surmounted "peculiar and expensive difficulties, arising from the recent legislation", and that in a few days the formal announcement of incorporation under charter would be made. The profits of the first year permitted a dividend of two per cent, besides providing the nucleus of a reserve fund. One of the novel features of the code governing English chartered banks was a provision requiring the audit and publication of accounts, a practice almost unknown among banks outside London. For this reason the first balance sheet of the Preston Banking Company is an unusual document and it is reproduced on the following page in its actual wording. It will be observed from the "omnibus" item on the assets side that a minimum of information

<sup>(1)</sup> The other directors were: William Bashall, Thomas Leach, John Humber, Robert Snell and Thomas Oxendale.

<sup>(2)</sup> The original charter is still preserved. It is a bulky parchment document, to which is attached a large royal seal.

was given. Especially interesting is the indication that spare balances were held with the Bank of Ireland—a practice possibly arising out of the importance of Preston as a port concerned largely with Irish trade—while the wording of the auditors' report will be noted as considerably more comprehensive than is now customary.

LIABILITIES	£	s.	d.	ASSETS	£	s.	d.
Paid up Capital £50 per Share on 2,000 Shares	100,000	0	0	Cash in Bank, in Bank of Ireland and other Banks, Bills Discounted, Loans, &c. ...	228,848	15	3
Due by the Bank on Current Ac- counts and De- posit Receipts	127,279	14	11	Bank Premises, consisting of Freehold Pro- perty in Fisher- gate ... ..	1,390	0	0
Surplus Profit...	2,959	0	4				
	£230,238 15 3				£230,238 15 3		

We hereby certify that we have examined the above Statement or Balance Sheet, and have Audited the Accounts from which the same has been made out, and have found it to be correct, and we also hereby approve of the Report of the Directors and the recommendations contained therein, as to the declaration of a Dividend of Two per cent.

WILLIAM HUMBER,  
EDWARD RODGETT,  
*Auditors.*

PRESTON, July 24th, 1845.

Thus well founded, the bank made swift progress, and was soon playing a considerable part in the growth of the principal industry. The crisis of 1847 was overcome without difficulty, the board informing the shareholders that the bank did not "directly or indirectly hold a single railway share". Already the business was mainly concerned with the cotton trade, a characteristic which remained throughout its independent life and in course of time brought grave difficulties. At this stage, however, the rapidly increasing business of the bank was pressing hard upon its resources. By 1854, although deposits then exceeded £320,000, it was borrowing from the Bank of Ireland to meet the demands of local industry. Doubtless it was this need for additional resources which encouraged a cautious beginning upon branch extension. In 1850 a branch had been opened at Lancaster,

and seven years later two more were established, at Southport and Ormskirk: these last in spite of the fact that the bank had not escaped the crisis year without a loss which reduced both the reserve fund and the rate of dividend. But there were special circumstances affecting the two towns which presented an opportunity too good to be missed.

In 1825 the private bank of Lawe, Roskell, Arrowsmith and Co.—later Robert Lawe and Co.—had been founded in Preston. The bank had prospered and opened branches at Ormskirk and Southport, forming useful links between the three towns. Quite unexpectedly, in May 1857, the doors of the bank were closed, but not, as might be supposed, as a consequence of the crisis or of reckless banking. The closure arose solely from the fact that Robert Lawe, then sole proprietor, had died suddenly, and, as his will could not be found, no arrangements could be made for carrying on the bank. The position gives a striking illustration of one of the weaknesses inherent in private banking, for, although the bank was quite solvent, showing a surplus of nearly £40,000 on total liabilities of £114,000, yet there was no alternative to closing the doors, with resultant inconvenience and damage to credit. The bank did not reopen, and arrangements were shortly being considered for establishing branches of some other bank in the bereft towns. Whatever negotiations may have proceeded, they did not reach a successful conclusion, and the towns remained for some weeks without a bank.<sup>(1)</sup> Eventually, in September 1857, the Preston Banking Company opened branches in both places, the one at Ormskirk being in the premises formerly occupied by Lawe and Co.

These first steps in extension were so successful that in 1863 a fourth branch was opened, at Blackburn, by then an important manufacturing centre of over 100,000 inhabitants; and a year later offices were established at Fleetwood, Garstang, Lytham and Blackpool, places hitherto without banking facilities. Some measure of the results of this more vigorous policy is to be seen in the growth of deposits, which at the end of 1864 exceeded £1 million. But by far the strongest factor in development lay in the expansion of the cotton industry in Preston, where in

<sup>(1)</sup> The issue of the *Southport Visiter* for June 4, 1857 reports that the gentlemen seeking to arrange for a bank branch were taking no further steps, "considering it *infra dig.* for a place like Southport to go begging for a bank". A month later a project for a new joint stock bank for Southport and Ormskirk was announced, but was not carried further.

1856 there were as many as seventy-five firms manufacturing cotton goods, and several new mills in course of erection. It was at this period that the bank's intimate concern with the cotton industry brought serious disturbance.

The growing dependence upon North America for supplies of raw material has already been noted ; in 1860 over 1,390 million pounds were imported into Great Britain, mainly from this one source. The outbreak of the American civil war in 1861 brought about a sharp curtailment of available supplies, and marked the beginning of an acute shortage which continued for four years. Imports of raw cotton fell by one-half, and very soon Lancashire was in the throes of a cotton famine. The industry was brought almost to a standstill, and grave distress was felt throughout the manufacturing districts. Preston suffered as severely as any other town, and by the end of 1862 large numbers of the inhabitants were subsisting upon poor relief. Not until 1866 was the import of raw cotton back to the pre-war level.

The Preston Banking Company struggled to maintain its position in the face of growing difficulties, but eventually was compelled to admit defeat. On July 19, 1866 the following startling announcement was posted on the doors of the bank :—

"In consequence of the pressure on the money market, and temporary embarrassment, this bank is compelled to suspend operations for the present."

The notice threw the town into a state of excitement and dismay that lasted for several days and was shared in even more acute form by several of the smaller towns in the neighbourhood, which were entirely deprived of banking facilities by the suspension. Some of the manufacturers encountered difficulty in finding cash to pay their employees, while it was rumoured that even the borough policemen would not receive their week's wages. Happily, the generous action of the other banks of the town, which remained open for two or three hours longer than usual, sufficed to mitigate the distress, and the excitement slowly abated.<sup>(1)</sup>

A few days later a meeting of shareholders was called to consider the position. It appeared that, as a consequence of the long and severe depression in the cotton industry, many local manufacturers had been forced to lean heavily upon the bank,

<sup>(1)</sup> *Preston Guardian*, July 21, 1866.

mortgaging their mills and drawing accommodation paper to an alarming extent. Two large failures, one of a Blackburn firm and the other of a cotton broker in Liverpool, had involved the bank to the extent of £400,000, and, in view of the great stringency in the London money market, little hope had existed of obtaining assistance from outside. A run upon the bank had begun, and suspension inevitably followed. Some conception of the degree of strain is seen in the statement of accounts submitted to the meeting; deposits amounted still to just over £1 million, but loans and bills exceeded £1,300,000. The losses were estimated at £180,000, nearly twice the paid-up capital of the bank, but it was decided nevertheless to reopen for business as soon as the general consent of the shareholders could be obtained.

In order to meet the deficiency the fifty pounds unpaid on each share was called up, and for the purpose of carrying on the bank the shareholders were invited to subscribe for two thousand new shares of £25 each, while depositors were asked to agree to payment by instalments at stated intervals. The arrangements took some time to complete, so that the doors of the bank remained closed for five weeks. Eventually the Preston head office was reopened, and the branches followed cautiously—all, that is, except two, for those at Blackburn and Lancaster remained permanently closed. A reconstructed board of directors and a new general manager began the heavy work of regaining lost confidence and business.<sup>(1)</sup> The task was no easy one, and it was made the more difficult by a disheartening occurrence at Southport and Ormskirk. During the period of closure rival institutions seized the opportunity to establish competitive offices, taking into employment both the managers and staffs of the Preston bank branches, which, however, were carried on.

Allowing for these difficulties, the first report after suspension, presented in August 1867, made encouraging reading. The directors stated that the whole of the new capital had been subscribed by the previous shareholders, and that immediately upon re-organization the bank had resumed its former activity. A measure of the confidence regained was to be seen in the amount of deposits, though the total tended downwards for the ensuing three years. The balance sheet for June 30, 1867 revealed the

<sup>(1)</sup> The new directors were: Edward Rodgett (chairman, formerly auditor—see page 148), John Bickerstaff, George Hargreaves, T. C. Hincksman, C. R. Jacson, Joseph Livesey (the noted temperance reformer) and James Whitehead.



severity of the blow to the bank by setting out the position in the manner shown below:—

DR.		CR.	
	£ s. d.		£ s. d.
To Original Capital		By old bills and other securities, and balances owing to the Bank—bad and doubtful—the result of the realisation of which cannot be reported till next year	
Subscribed ...	200,000 0 0		
do. Paid up	186,134 4 7		
<p>These amounts are suspended in pursuance of the Resolutions of the Meetings of Shareholders in May, 1867.</p>			
			199,134 4 7
<hr/>		<hr/>	
	£ s. d.		£ s. d.
To New Capital ("A" Shares)—		By Bank premises at Preston, Lancaster, Blackburn, and Blackpool	
2,000 Shares at £25 each,			16,300 0 0
£50,000	0 0	Bills discounted, advances on current accounts, and special loans on security ...	783,621 10 2
Amount paid up	37,012 10 0	Investments in Government securities, India bonds, and other securities...	52,131 12 5
Amount due by Bank on current, deposit, and other accounts ...	903,153 3 2	Cash in hand, at Union Bank of London, and at call ...	94,300 12 1
Balance of Profit and Loss Account, being Nett Profits for the year	6,188 1 6		
	<u>£946,353 14 8</u>		<u>£946,353 14 8</u>

It will be seen that the bad and doubtful accounts exceeded in amount not only the former paid-up capital of £93,000, but in addition the equivalent call necessitated by the failure, while the reserve fund of £20,000 had been lost. It was indeed a sorry statement for any bank to make, particularly for one carrying

the seal of incorporation as a chartered company under legislation designed to prevent just such unhappy occurrences. Not for another eight years was it possible to dispense with the explanatory heading to the balance sheet ; accumulated profits then permitted a sum of £50,000 to be restored on the old capital account, and at this figure, representing a recovery of about one-quarter of the loss, it was stabilized. Incidentally, the last item in the balance sheet reveals the increasing cohesion of English banking, for no longer was the bank leaning on the cross-channel connection ; its principal agents were now the Union Bank of London.

From the 'seventies onwards the Preston Banking Company made solid progress, with only one setback of any importance. This took place in 1883, when the sub-manager absconded with a considerable sum, but happily the bank was sufficiently strong to meet the loss without any diminution of public confidence. A new and vigorous manager was appointed, and the bank resumed its steady course. There was, however, but little relaxation of the pressing credit requirements of local business, and the resources of the bank were often taxed to the utmost. Some endeavour was made to enlarge deposits by broadening representation, and by 1894 the bank was operating through ten branches and sixteen sub-branches. The policy was moderately successful ; deposits reached £1,800,000, while loans and bills increased to £1,300,000 ; meanwhile the paid-up capital had been raised to £200,000, and a reserve fund of £200,000 had been accumulated.

The directors, encouraged by this result, decided to press on with branch extension, but their plans were abruptly called to a halt. It appears that, although the bank had registered as a limited liability company in 1883, it was still in some measure controlled by the original Letters Patent under which it had been established. The charter severely restricted the powers of the directors, in particular prohibiting the opening of branches at a distance of more than forty miles from the parent office. Counsel's opinion was sought as to the best way of overcoming the difficulty, and his conclusion was that there were only two possible courses, the first to wind up and entirely reconstitute the bank, and the second to obtain an Act of Parliament giving special powers to the directors to open branches on a wider scale. So it was that the cumbersome legislation of 1844 cast a long shadow of restriction down to this late period. Neither of the suggested plans seemed

a happy solution of the problem, and the directors were driven to turn their attention to a third possibility, that of amalgamation. The process of consolidation in banking had already made a beginning in Lancashire, though it never went as far or as fast as in the rest of the country. In 1892 the Midland Bank had absorbed the Manchester Joint Stock Bank, and it now sought representation in the northern industrial part of the county. It was, therefore, a willing party to negotiations with the Preston Banking Company, and terms of amalgamation were soon agreed upon.<sup>(1)</sup> James Whitehead, the chairman of the Preston bank, accepted a seat on the board of the Midland, and the amalgamation took place as from July 1894.

The troubled history of the Preston Banking Company, though not strictly representative of Lancashire banking, provides an extreme example of the trials of the early 'sixties and their effect upon all the banks of the county. In spite of the strain the two private banks of Liverpool whose origin has been related came through the difficult years with little disturbance, though one of them undertook a change of constitution. True, in many ways the economic development of Liverpool was quite distinct from that of Lancashire; the city possessed a far wider range of interest than was usual in the county. It was pre-eminently a shipping and mercantile centre, primarily concerned with the cotton trade, but also dealing very largely in foodstuffs and the multiplicity of imports required by the teeming populations of industrial towns, to say nothing of a rapidly-growing passenger traffic across the Atlantic. Doubtless this variety of trading activities contributed to the stability of the old banks in spite of competition from the new joint stock formations. Leyland and Bullins did not publish balance sheets, nor is there any record of profits and losses, but it is known that at no time was there any rumour of weakness, and that the reputation of the firm remained unshaken by the calamities of the times. In 1860 the partners were John Naylor, a member of Leyland's family, and George Arkle, formerly an apprentice of the bank who had worked his way up to the position of managing partner. The fluctuating fortunes of the cotton industry, however, quickly took effect in Liverpool.

<sup>(1)</sup> The terms were: one and four-fifths Midland shares (of £60, with £12 10s. paid up) and £20 8s. cash for one Preston Bank ordinary share (of £100, with £25 paid up); one and one-fifth Midland shares (of £60, with £12 10s. paid up) and £12 12s. cash for one Preston Bank "A" preference share (of £100, with £28 paid up).

The firm of Moss and Co. had now enjoyed a prosperous career extending over half-a-century. It seems, however, that at the time of the cotton famine the firm, then in the control of two sons of the founder, Thomas Edwards-Moss and Gilbert Winter Moss, felt the need for additional resources to finance its close connection with the cotton and shipping trades, and it sought them by becoming a joint stock bank under the title North Western Bank. The prospectus, issued in March 1864, stated that the new company had been formed "for the purpose of carrying on and extending the business of the well-known banking house of Messrs. Moss and Company". The business and premises of the firm were taken over, and both partners became directors and large shareholders in the bank, while Thomas Edwards-Moss was appointed first chairman.<sup>(1)</sup> No payment was made for goodwill, but the partners received the value of the premises from the new institution. With a determination to be right up-to-date while in process of change, the bank was incorporated with limited liability, under the recent legislation. The nominal capital of £2 millions was divided into shares of £20 each, of which it was not intended to call more than £10 per share.

The initial offer of shares met with an overwhelming reception, applications exceeding five times over the 54,000 shares to be issued. On each share £5 was called up, making the paid-up capital £270,000. The first balance sheet, for the end of 1864, may be taken to disclose approximately the position reached by Moss and Co. Deposits amounted to £722,000, and liabilities on acceptances to £478,000; loans and bills discounted, at £925,000, revealed the extent to which business was pressing upon the resources of the bank, and an early call of £2 10s. per share was made, bringing the paid-up capital to £405,000.

No sooner had the bank adopted company form than the disturbances of the late 'sixties took their toll of profits and of public confidence, expressed in the amount of deposits. The immediate revival in the cotton industry following the restoration of peace in North America was accompanied by a burst of speculation in the raw material, which brought disaster to some Liverpool banks and inevitably involved the North Western. Losses resulted from local defalcations, and the bank was forced to go to law on more

<sup>(1)</sup> The other directors were: S. J. Arnold, Henry Cox, Kirkman Finlay, H. B. Gilmour, Thomas Haigh, Gilbert Winter Moss, C. W. H. Pickering and J. A. Toben.

than one occasion to obtain satisfaction. Small wonder that the directors' reports for 1867 and 1868 refer to "the fall in the level of . . . commercial morality", though fortunately the bank was able to cover its losses by reducing dividends from ten to five per cent. More serious was the ensuing decline of confidence, shown in a shrinkage in deposits from over £1 million to less than £600,000, and a fall in the market price of the bank's shares. Throughout these years of trial the Moss family staunchly supported their bank, translating their confidence into practical measures by buying large quantities of shares whenever they were offered for sale. In 1871 the directors announced that the bank had "fairly turned the corner", and satisfactorily emerged from a period in which five banks had failed in Liverpool. The North Western Bank, pursuing a cautious policy, had no bills under re-discount; the reserve fund amounted to £50,000 and profits permitted dividend payments of six per cent.

The next ten years showed steady progress, during which the bank was able to add to the reserve fund and maintain dividends in spite of the occasional losses associated with the specialized nature of its business. An interesting comment in the directors' report for 1875 refers to "the undeserved odium cast on Liverpool bankers for not adopting the cheque system", and points out that the current business practice could be adjusted only by the commercial community in general. The depression of 1878 brought bad debts, again partly attributable to forgeries, but the amount was relatively small and did not interrupt the bank's progress. Far more serious was a loss of £40,000, reported in 1884, through the misappropriation of corn charged to the bank by the largest corn merchants in Liverpool; and it was fortunate that the bank, in its strengthened position, was able to surmount the difficulty with little outward sign of disturbance. The balance sheet figures, however, continued to show that the business of the bank required all the resources available. In 1884, with deposits amounting to £700,000, loans and bills exceeded £1 million; and this position was quite a usual one, partly explained at the annual meeting a year later by the statement that "buoyant trade required a considerable sum of bills under rediscount". In the account of the same meeting there is a record of changes in the cotton trade that is of some significance. "A large proportion of the cotton which used to remain in Liverpool for sale had been

bought by the Manchester spinner direct", stated the directors, "and so was financed in Manchester and not in Liverpool". Nevertheless, there were reasons for believing even then, as later proved to be true, that the change was not to be carried to any advanced stage.

Ten years later the first hint is seen in the bank's history of the pressure towards a widening sphere of operations in banking. In 1895 the Midland, which by then had become well established in Manchester and north Lancashire, was looking naturally to Liverpool to complete a skeleton of branch representation in the county. Accordingly, the North Western Bank was approached with a view to amalgamation, and negotiations were opened. It proved impracticable, however, at that time to come to terms, and the Midland therefore opened a branch in Dale Street, Liverpool. The breakdown of negotiations was due in part to yet another heavy loss which the unfortunate Liverpool bank had reported in the previous year: the history of the bank contained numerous setbacks of this kind, in some measure arising out of a type of business peculiarly susceptible to misuse by the unscrupulous. During the century both legislation and practice had been tightened to close as many as possible of the loopholes for fraud,<sup>(1)</sup> but it still remained true that advances against produce rested very largely upon the personal integrity of the borrower. In 1893 the North Western Bank was found to have been the victim of an astute and long-continued forgery of invoices and false declarations of value by a tobacco factor. The "Whishart frauds", as they came to be described, brought losses to the bank of as much as £70,000, met by the transfer of £50,000 from the reserve fund, then amounting to £130,000, and by a reduction of dividend from eight to six per cent.

In these circumstances the market price of the shares was depressed, and probably did not reflect the full value of the business; it is easy, therefore, to understand the difficulty of arriving at amalgamation terms satisfactory to both sides. At the same time the need of the North Western Bank for some means of spreading its risks over a broader field was brought to the forefront, while the old strain arising from a business too large for the bank was still felt. Efforts to obtain additional resources had

<sup>(1)</sup> In 1886 the directors reported: "A new system has been introduced into banking, and money is not now advanced on promises, but we have almost always warrants to fall back upon".

been made after 1885 by the now familiar method of suburban branch development, and by 1893 the bank possessed eight offices within the city boundaries. This plan was successful in yielding a rise in deposits; but loans and advances increased even more rapidly. In 1888, with deposits of £1,100,000, loans and advances exceeded £1,300,000. Following upon the Whishart disclosure, deposits tended to decline, thus accentuating the difficulty, while it was manifestly an injudicious moment to increase the paid-up capital, which had stood at £405,000 since 1866. The bank, therefore, was anxious to find a strong partner, and when, in 1897, the Midland's inadequate representation in Liverpool led to the reopening of negotiations, the amalgamation of the North Western Bank proved a more practicable proposition. On this second occasion, though only after careful investigation of the position, terms were agreed upon,<sup>(1)</sup> and as from June 1897 the North Western Bank, after having met with more than its fair share of ill-fortune, became part of the Midland system, the chairman of the directors, William Benjamin Bowring, accepting a seat on the board.

Meanwhile, Leyland and Bullins retained its independence, and did so with special emphasis in that it still stood forth as a private firm, almost solitary among rapidly advancing joint stock banks. By the beginning of the twentieth century it was the only private bank in Liverpool, enjoying an unrivalled reputation supported by nearly a century of prosperous and useful life. In 1895 the head office had been moved to 36 Castle Street, following the trend of business in the city, while the King Street premises remained open as a branch, and another branch had been opened in Bold Street. At length, however, the trend of events proved irresistible, and in 1901 the partners were persuaded to relinquish their business in favour of the North and South Wales Bank.<sup>(11)</sup> The strength of the private firm is indicated in the figures at the time of absorption, for deposits, including those of the partners, exceeded £1,380,000; the capital of the partners was £287,000, and the reserve fund £25,000; while advances amounted to over £1,170,000. At the time of amalgamation the partners were Christopher John Leyland, Rowland Edward Leyland Naylor and John Naylor, the business having remained throughout in the control of the two

<sup>(1)</sup> The terms were: one Midland share (of £60, with £12 10s. paid up) and £3 15s. cash for five North Western Bank shares (of £20, with £7 10s. paid up).

<sup>(11)</sup> See chapter VI.

closely related families, though it is worthy of record that exceptional ability displayed by officials of the bank was on occasion rewarded by membership of the firm, a method of recruitment that played its part in ensuring success. Seven years later the old private firm, as part of the North and South Wales Bank, was brought into the Midland by the amalgamation of 1908. The Midland thus greatly strengthened its Liverpool connection, bringing within its scope the long tradition and combined businesses of two of the oldest banking undertakings in the city.

So it was that the Midland made and consolidated strong entries into the business of Lancashire's port as well as one of her principal manufacturing towns. Neither of these centres, however, was the first to be entered by direct amalgamation, nor was either of them the last. Two years before the Preston amalgamation the Midland had made its initial venture into the cotton area by absorbing a Manchester bank, while a year after the North Western fusion there followed union with a bank in Oldham. Both amalgamations were with relatively young banks. Manchester, the metropolis of Lancashire, by 1861 possessed a population which, with that of Salford, exceeded half-a-million persons and was still growing rapidly. Here, as nowhere else, the power of the cotton industry expressed itself, and the city presented a faithful record of Lancashire's achievements. There were strong banks in Manchester, both private and joint stock, deriving from the early part of the century, but the institution here described was late in establishment and restricted in scope. In 1863 the private bank of Robertson, Fraser and Co. was opened in High Street, Manchester. William Murray Fraser, originally an employee of the National Bank of Scotland, had transferred his energies to the Manchester private bank of Sewell and Nephew in 1854, and after nine years decided to embark on his own enterprise. Accordingly, in partnership with John Robertson, a man of large capital from Edinburgh, and Frederick Howard Allen, who had had practical banking experience with Sewell and Nephew for many years, he formed his private bank at this late stage of banking evolution.<sup>(1)</sup>

As a private firm the bank appears to have been moderately successful, and the fact that before long a change of constitution was arranged gives some indication of the volume of business

<sup>(1)</sup> L. H. Grindon: *Manchester Banks and Bankers* (1878).



acquired. In 1873 the partners agreed to form a limited company, under the name Manchester Joint Stock Bank, to take over the business and premises of Robertson, Fraser and Co., W. M. Fraser taking office as managing director, John Robertson becoming a director, and Thomas Aitken chairman of the board.<sup>(1)</sup> F. H. Allen was appointed secretary. The nominal capital was £500,000 in shares of £20; but only 12,500 shares were issued, and upon these £4 was paid, making the paid-up capital £50,000. It was a small project for such a city as Manchester, and the first balance sheet shows the limited connection inherited from the private firm; deposits amounted to little more than £100,000, and advances were rather less than £68,000, with bills discounted amounting to £89,000.

The bank enjoyed a modestly prosperous career for the whole of its independent life. Within two years of assuming the new form the paid-up capital was increased to £102,000 by a call of £2 on existing shares and additional issues, while the head office was removed to Pall Mall, leaving the High Street office as a branch. In 1879 there was a second removal, the principal office being established in King Street, while the Pall Mall premises were let.<sup>(2)</sup> Strenuous efforts were made to extend the business, which is believed, as in the days of the private bank, to have been largely concerned with a colony of Moors in Manchester. Negotiations were begun for amalgamation with other small Lancashire banks, but none issued in a successful conclusion. Among the abortive proposals entertained was a plan to absorb the business of Robert Wharton, "money changer and banker at the Cattle Markets of Salford, Liverpool and Wakefield". More effective was a policy of branch extension within the city, the number of offices increasing to ten during the decade from 1881. The moderate success of this policy was seen in a small increase in deposit figures, which grew to exceed £500,000 by 1891. Nevertheless, the rate of advance was slow and disappointing, and a year later the bank gave up the unequal struggle by amalgamation with the Midland. The union of forces was in accordance with general tendencies, but was somewhat remarkable for Manchester, since, despite the rapid progress of amalgamation throughout the country in the last decade of the nineteenth century, many of the banks in Lancashire

<sup>(1)</sup> The other directors were: B. B. Brierley, Sigismund Cohen, J. B. McKerrow and Andrew Knowles.

<sup>(2)</sup> The tenants were the National Bank of Wales, see chapter III.

preserved their independence for much longer than in other districts, and there still remain two distinctively Lancashire joint stock banks. Nevertheless, the process of penetration by institutions seeking country-wide representation inevitably brought Lancashire into the general banking system of the country. The Midland was by this time one of the most active in pressing forward amalgamation, and it possessed a special link with Lancashire in that Holden, then joint general manager, had obtained his early training in a Manchester bank.

The absorption of the Manchester Joint Stock Bank,<sup>(1)</sup> provided the Midland with a useful introduction to the city through eleven branches and a small but sound business. From the Manchester bank's point of view the union was equally desirable, since despite strenuous efforts the business had shown signs of recession, and the impossibility of growth without wider representation had become steadily more obvious. Two years later, it will be remembered, the Midland's branch system in Lancashire was strengthened by amalgamation with the Preston Banking Company, but it was still far from adequate.

During the preceding thirty years belated development had taken place in other Lancashire towns. Conspicuous among them, a few miles north of Manchester, was Oldham, the great spinning centre, which rivalled Preston in the rapidity of its development. Fortunate in its proximity to large coal resources, the town had witnessed a rapid multiplication in the number of spindles, as well as the establishment of large iron and steel works, mainly concerned with the manufacture of textile machinery. By the 'eighties the population exceeded 179,000, and Oldham was estimated to consume one-fifth of the total imports of cotton into Great Britain. No small part of this growth had taken place in the preceding ten years, for Oldham, after having suffered severely from the effects of the cotton famine, recovered with astonishing speed, and led the way in the application to industry of the newly-available limited liability constitution. The new company structure was only slowly adopted by the textile manufacturers of Great Britain, and until the closing decades of the nineteenth century the usual form of control was still the family partnership, though the size of business units had increased considerably. In the cotton industry of Oldham, however,

<sup>(1)</sup> The terms were: one Midland share (of £60, with £12 10s. paid up) and £2 15s. cash for three Manchester Joint Stock Bank shares (of £20, with £6 paid up).

the decade from 1870 was crowded with company formations. The "Oldham Limiteds" made possible an even swifter expansion of industry, and set an example that eventually spread throughout the county.

The boom years called for enlarged banking facilities, and, although Oldham was served by five branches of three Manchester joint stock banks, there were many complaints and considerable friction. In particular, the Manchester banks were said to be chary of lending to spinning companies formed on the novel principle of limited liability, and frequently refused accommodation solely on the ground that the applicant was so constituted. Not unnaturally, this attitude aroused considerable resentment among Oldham industrialists, and very soon arrangements were being made to form a local joint stock bank, which in all the circumstances could hardly be other than a limited liability company. At the beginning of 1880 a project was under weigh for the establishment of a new bank, the Oldham Borough Bank Limited, under the auspices of a number of influential local industrialists, but the formation was interrupted by a curious trick on the part of a rival group of spinners. This second group of bank promoters was engaged in forming the Bank of Oldham, but, upon learning the title of the first bank before it was made public, promptly registered a company under the title "Oldham Borough Bank Limited" with a capital of £100; following this by publishing the announcement that "owing to the success of the establishment of the Bank of Oldham Limited no prospectus whatever will be issued or allotments made in the Oldham Borough Bank Limited". The following day the supporters of the true Borough Bank published a statement to the effect that, as the title of "Oldham Borough Bank" had been "appropriated", the name of the new company would be the Oldham Joint Stock Bank.<sup>(1)</sup>

Apart from some initial inconvenience, the ruse of the Bank of Oldham in no way hindered the Oldham Joint Stock Bank; indeed, the misguided ingenuity of the rival bank's tactics may have accounted in part for a general lack of support and its own ultimate failure.<sup>(2)</sup> The Oldham Joint Stock Bank, by contrast, was successful from the day of opening. The nominal capital was

<sup>(1)</sup> *Oldham Chronicle*, February 21, 1880.

<sup>(2)</sup> The Bank of Oldham became the Manchester and Oldham Bank in 1882 and failed two years later.

£500,000 in shares of £20; and of these 23,000 were issued with £2 paid, providing a paid-up capital of £46,000, exclusively from Oldham business men and residents. Under the chairmanship of H. T. Milne, with a board composed almost entirely of active participants in the cotton industry of the town,<sup>(1)</sup> the bank opened for business in Yorkshire Street on June 1, 1880. After two years deposits amounted to nearly £400,000, and the nucleus of a reserve fund had been formed, while dividends were being paid at the rate of five per cent. At this date the bank undertook an extension of its sphere of operations by taking over the good part of the business of the Rochdale Joint Stock Bank.

This small and ill-starred undertaking dated from 1861, when it was founded under the title Rochdale Loan and Discount Company, with a paid-up capital of only £5,000, specifically for the purpose of dealing in bills of exchange and other commercial documents. Almost immediately it encountered losses from the severe and prolonged depression, but managed to survive and to build up a small discount business. In 1872 the tiny institution became more properly a bank, adopting the name Rochdale Joint Stock Bank, and in the next published accounts the paid-up capital stood at £12,000, deposits amounted to £44,000, and advances were recorded at £45,000. The business slowly increased during the next six years, while an attempt to broaden its scope led to the opening of two branches in the neighbourhood. In 1878, however, the failure of the City of Glasgow Bank and the ensuing crisis took effect in the collapse of a long-established private banking firm, and a run took place on the Rochdale Joint Stock Bank. Deposits fell precipitately, but there was no sign of a reduction in loans. By making a call upon shareholders the bank managed to struggle on for another four years, but the realized losses made it necessary to write off one-half of the meagre capital, and it was clear that it could no longer sustain an independent existence. Accordingly it was agreed that the Oldham Joint Stock Bank should purchase the premises in Rochdale, Castleton and Wardle for £3,500, and pay £2,000 for the goodwill of the business, the Rochdale bank being wound up. In this way the Oldham bank achieved a broadening of its sphere of operations, of all the greater potentiality in that

<sup>(1)</sup> The directors were: J. Clegg, W. Lees, J. Lees, J. M. Cheetham, J. T. Clegg, A. Crompton, J. Crompton, A. Mellor, S. O. Ward, W. Wrigley, J. W. Clegg, E. Collinge and J. Taylor.

Rochdale was engaged in a larger variety of industries than most other Lancashire towns. By 1889 the Oldham bank recorded deposits of more than £1 million, while bills and advances stood at £581,000. It was an excellent record for so short a life, and on these figures the bank might well have been congratulated upon its avoidance of the general weakness of overlending.

Nevertheless, the greatly increased size of the average unit in the cotton industry made the bank too small for its business connections, while the fact that available resources were at all times fully employed left no margin for the increased accommodation required during the cotton moving season. From 1888 onwards belated efforts were made by branch extension to solve the problem, and after nine years the bank possessed seven branches and three sub-offices, all in the near neighbourhood of Oldham, while in 1892 larger premises were built in Union Street for the head office.<sup>(1)</sup> The process of expansion was accompanied by an increase in deposits, but it was insufficient to meet the growing demands for accommodation. So it was that as late as 1890 the bank borrowed heavily from Scotch and Irish banks during the cotton season. Various proposals for amalgamation were considered, one of them, with the Manchester Joint Stock Bank, reaching an advanced stage before being abandoned upon failure to agree as to terms. Overtures from the Midland, however, in 1898, quickly issued in an agreement. The chairman of the Oldham bank, in his speech at the amalgamation meeting, concisely stated the factors driving his bank and many of its contemporaries into this course. "A small bank such as ours" he declared, "is not in a position to compete with the large institutions which have offices in different parts of the country. For some time past we have felt that it was necessary for our bank to have branches in Manchester and Liverpool, . . . [but] the heavy expense and severe competition were difficulties which we hesitated to encounter. In addition . . . there is no doubt that large banks with large resources are able to transact a great deal of business which is both safe and profitable and which is altogether out of the reach of such a small bank as ours." As a final reason, he remarked that "Mr. E. H. Holden . . . is a Lancashire man thoroughly conversant with Lancashire trade and Lancashire ways".

<sup>(1)</sup> Now the Oldham branch of the Midland Bank.

Short though its life had been, the Oldham bank might justifiably be proud of its record. At the time of amalgamation <sup>(1)</sup> deposits exceeded £1,400,000, while the reserve fund was as high as £155,000, so that the bank was nearly as large as the much older Preston Banking Company. Moreover, part of the surplus profits had been capitalized, and constituted roughly one-third of the paid-up capital, then amounting to £200,000, while since 1886 dividends of ten per cent had been paid regularly. In accordance with the practice observed in most of the substantial amalgamations, J. Milne Cheetham, chairman of the directors, was elected to a seat on the board of the Midland.

The separate histories related in this chapter show the variety of undertakings which contributed to the Lancashire connection, encompassing old private firms of long standing as well as lately-formed limited liability companies. The differences in achievement, also, are too obvious to need re-statement. Yet there were some features common to practically all the banks mentioned. First, all of them were in effect confined to one town or its very near neighbourhood, and the weakness of such restriction became apparent as time went on. Secondly, the joint stock banks, with one exception, were formed because of local dissatisfaction with existing banking facilities—an indication of the pressure upon financial arrangements exerted by the swift growth of industry in Lancashire. Thirdly, and for the same basic reason, towards the end of the century nearly all the banks, as in other parts of the country, tended to become over-lent ; more particularly, in Lancashire, at periods of heavy seasonal borrowing. This was an inevitable weakness of "unit banking", which could only be overcome by concentration of varied economic associations within the sphere of operation of a single bank.

<sup>(1)</sup> The terms were : three Midland shares (of £60, with £12 10s. paid up) for thirteen Oldham bank shares (of £20, with £4 paid up).

## APPENDIX TO CHAPTER V

## EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

(£000 omitted)

Name of bank	Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills
<b>MANCHESTER JOINT STOCK BANK</b>						
1880 ...	102	57	nil	354		458
1890 ...	102	54	nil	509	432	150
<b>NORTH WESTERN BANK</b>						
1870 ...	405	40	nil	602		928
1880 ...	405	100	nil	805		1,188
1890 ...	405	120	nil	1,073		1,225
<b>OLDHAM JOINT STOCK BANK</b>						
1880 ...	46	nil	nil	174		63
1890 ...	117	70	nil	1,183		945
<b>PRESTON BANKING COMPANY</b>						
1850 ...	100	5	nil	300		406*
1860 ...	100	13	nil	787		893*
1870 ...	239	18	nil	683		651
1880 ...	100	45	nil	1,001		818
1890 ...	176	118	nil	1,463		1,133
<b>ROCHDALE JOINT STOCK BANK</b>						
1870 ...	7	nil	nil	23	23	4
1880 ...	26	nil	nil	45		61

\* Including cash

CHAPTER VI  
THE "WALES BANK"

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In 1908 the Midland amalgamated with the North and South Wales Bank, then a powerful country institution with its head office at Liverpool and a branch system extending through North and mid-Wales. The "Wales Bank" was itself built largely upon absorptions.

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FROM Lancashire to North Wales is at first sight but a short step, particularly when the long economic association of the Welsh counties with Liverpool is recognized. Yet the step is in reality much more distant than it seems, for the two areas differ radically in type and resources. Indeed, North Wales, in economic history, provides a parallel with the extreme north-west counties of England and a strong contrast with the neighbouring area of Lancashire. In banking the history of North Wales yields a story of particular worth, for the representation of the Midland Bank in that area is distinctive in that it is derived mainly from the absorption in 1908 of a single joint stock bank, itself based largely upon the pre-existing businesses of scattered private firms. The North and South Wales Bank, indeed, may be said to have anticipated in miniature by fifty years the fusion of varied undertakings into a balanced whole. Accordingly, the story related in this chapter possesses an interest surpassing those of many other country banks, and happily the records of the "Wales Bank" are more than usually complete.

The earliest years of the nineteenth century found the northern counties of Wales, though still predominantly concerned with agriculture, in the throes of an incipient industrial revolution. In the preceding few decades industry had moved forward rapidly, mainly under the stimulus of English capital attracted by the plentiful supply of cheap labour and abundant water power as well as the diverse mineral resources of the Welsh mountains. At a later stage the Flintshire coal mines played their part in maintaining for a time the swift advance of industrial activity. Economic development had been held back by lack of capital and primitive transport facilities, constituting a barrier to progress



**LIST OF BANKS ABSORBED BY THE NORTH AND SOUTH WALES BANK  
(AMALGAMATED WITH MIDLAND BANK IN 1908)**

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Estab- lished	Firm	Town	Date of absorption
1762	Banc y Llong, which about 1815 became Benson and Co.	Aberystwyth ...	1836
1790	North Wales Bank, which about 1820 became R. Sankey and Co.	Denbigh and Holywell	1836
1803	Williams and Son ... ..	Dolgelley ...	1873
1807	Leyland and Bullins ... ..	Liverpool ...	1901
1808	Davies and Co. ... ..	Kington and Knighton	1856 (Knighton section)
1822(?)	Douglas, Smalley and Co. ...	Holywell ...	1839
1847	Cassons and Co. ... ..	Portmadoc ...	1875
1864	Bala Banking Company ... ..	Bala ... ..	1877

all the more severe because of the rugged character of the mountainous countryside. During the second half of the eighteenth century some progress had followed the construction of roads by turnpike trusts, while the union of Great Britain and Ireland in 1800 brought a new importance to routes across Wales, and led directly to a reconstruction of the Chester-Holyhead road. In addition, considerable assistance had been given by the cutting of canals, serving a wide range of commodities and markets.

The influence of improvements in transport is clearly to be seen in the history of what is perhaps the distinctive industry of the area, namely slate quarrying. Situated among the remote fastnesses around Snowdon, far distant from the English border, the quarries had had to depend for their development upon local capital and enterprise, but, once the building of roads had alleviated the acute problem of transport, considerable expansion took place in the Penrhyn quarries, and the product provided a growing export trade from the ports of Caernarvonshire. Other centres of activity were now brought into being; the removal in 1831 of the slate excise duty (imposed during the war with France on all cargoes of slate carried by coastwise shipping) was followed by the incursion of fresh capital and renewed expansion of the industry; and some years later its growth was further encouraged by the construction of railways. Slate quarrying, almost alone among the industries of North Wales, has survived and increased in importance, providing, apart from agriculture, the principal occupation of the area.

Less exceptional in ultimate destiny, though outstanding in early history, was the manufacture of iron, which quickly attracted English capital. A furnace at Bersham, in Denbighshire, was active early in the eighteenth century under the progressive, though unsuccessful, management of the Lloyds<sup>(1)</sup> of Dolobran. Half-a-century later it came into the hands of Isaac Wilkinson, whose son John collaborated in the production of the first steam engines at Soho.<sup>(11)</sup> The Wilkinsons, among their great enterprises, also established works at Brymbo, Denbighshire, and in South Wales. The iron industry of North Wales, stimulated by the outbreak of war with France in 1793, grew rapidly, though

<sup>(1)</sup> Charles Lloyd was a friend of the Darby of Coalbrookdale who discovered the process of coke smelting, upon which the midland iron industry was built. Lloyd's younger brother migrated to Birmingham and eventually founded Lloyds Bank.

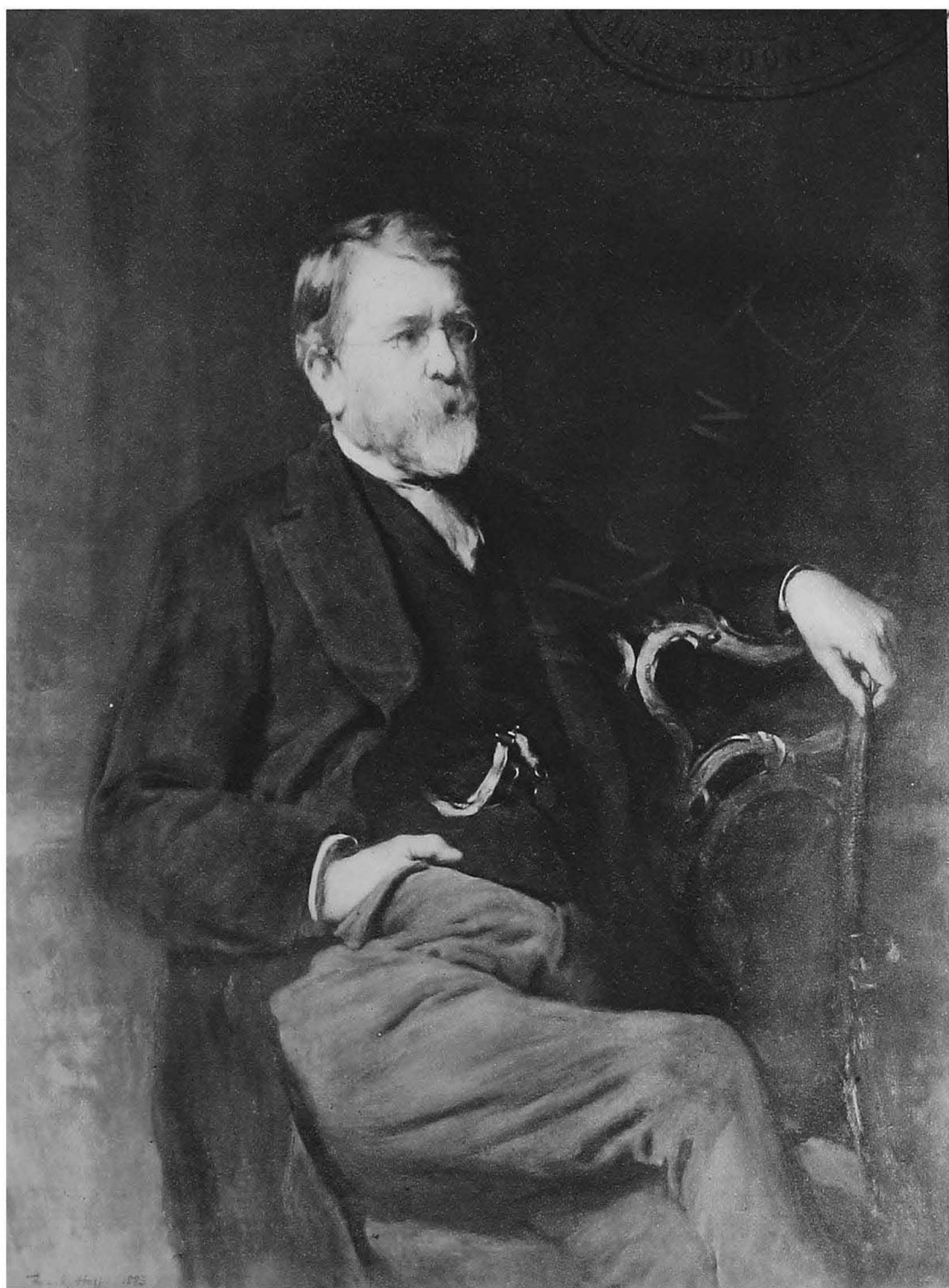
<sup>(11)</sup> See page 50.

even by 1827 it was responsible for less than four per cent of the total iron production of the United Kingdom. Meanwhile Wrexham and Holywell, well situated on the local coal measures, became centres of a variety of metal works. Holywell, in particular, was a prominent centre of copper smelting. The exploitation of copper ore deposits in Anglesey began during the seventeen-sixties, and by the beginning of the nineteenth century the mines, along with those of Cornwall, constituted the principal source of the world's supply. Holywell worked the metal received from both districts, while in addition much of the lead produced in North Wales came to Holywell for smelting.

The plentiful water supply and coal resources of Holywell added the manufacture of textiles to a growing list of industries. The district was not strange to textiles, for throughout North Wales an ancient woollen industry had been established in farm and cottage, wool from the flocks on the hills being turned into cloth for home purposes as well as on a small scale for outside disposal. In the early part of the nineteenth century Welsh flannels from Montgomeryshire and webs from Denbighshire and Merionethshire met a growing demand from England, and in spite of a setback in 1826 the trade made considerable progress for another decade. It remained, however, largely a handcraft industry, though a few small factories were established on sites made suitable by water-power, and in course of time it declined under competition from Lancashire and Yorkshire. About the middle of the nineteenth century an effort was made to introduce steam-power—the first successful power-loom was erected at Holywell—but it was too late to secure any lasting revival of the manufacture.

The establishment of the cotton industry was a far more striking adventure. John Smalley, a liquor merchant of Preston and one-time partner with Arkwright,<sup>(1)</sup> removed to Holywell in 1777, erected a water-driven cotton mill, and quickly developed a considerable business. Following his death, only five years after removal to Holywell, his son Christopher undertook vigorous extension. Two new mills were built with capital introduced principally through a moneyed partner, John Douglas, also from Lancashire. The firm now became Douglas, Smalley and Co., known as the Cotton Twist Company, and a fourth mill was built by 1790. At the turn of the century the undertaking was one of

<sup>(1)</sup> See page 146.



*[From the portrait by Frank Holl]*

**GEORGE RAE**

the largest cotton spinning firms in the Kingdom, providing employment for more than 1,200 operatives and extending the sphere of operations to Denbigh, while its success had led to the establishment of independent mills at Mold and Llangollen. Such was the record of success achieved on the basis of water-power provided by the swift running streams of North Wales. But it was now the turn of coal, and in this respect the northern counties of England were much more generously endowed than North Wales. Faced with the ruthless competition of Lancashire, the cotton industry in Wales declined as swiftly as it had arisen. By 1840 the Holywell firm was in liquidation, and only an insignificant remnant of the industry survived to the years of cotton famine, when it was completely extinguished.

Like the textile industries, the metal trades of North Wales one by one declined as the limited extent of local coal measures became evident, and the various metal mines were exhausted. For the twenty years to 1850 the output of iron recorded but little progress, while elsewhere it was rapidly increasing, and the advent of large-scale steel manufacture in England hastened the relative decline. Already, moreover, the exhaustion of the Anglesey copper mines in the 'thirties had brought to a close the North Wales section of the industry, and by the second half of the century the manufacture had migrated to South Wales.<sup>(1)</sup> So, too, the advent of cheap Spanish ores ousted the local mining of lead, depriving Holywell of yet another industry. Retaining only slate quarrying and remnants of the textile industries among its industrial activities, North Wales reverted step by step to the status of an agricultural region of only limited scope; on the other hand, with the development of railways it found in its mountains and sea coast a fresh source of economic strength through a growing tourist traffic. Thus there was a striking divergence, due mainly to unbalanced coal resources, between the respective economic histories of North and South Wales; whereas at the beginning of the nineteenth century there was little to choose between the prospects of each of them as centres of manufacture, before fifty years had passed it seemed clear that the south alone held promise of any lasting industrial development.

In the early stages, however, the industrial activity of North Wales was believed, not without reason, to be permanent. As

<sup>(1)</sup> See chapter III.

shown by illustration, the growth was largely the result of English enterprise financed by English capital, mainly from Lancashire and the midlands. By the end of the eighteenth century there were signs of financial strain arising from rapid extension. These are clearly to be seen in the story of banking development. Wilkinson's firm, for example, issued token coins and guinea notes to pay the workmen, until this currency was denounced by prejudiced opponents as comprising worthless *assignats*.<sup>(1)</sup> So, also, the copper and lead mining companies circulated token coins at various times, though doubtless this was in part a consequence of the general shortage of small currency during the Napoleonic war period. Quite soon the banker proper emerged, often directly from the ranks of the new industrialists. Among the earliest firms was the North Wales Bank, which, established at Holywell about 1790, is believed to have later become the Flintshire Bank. Prominent among its partners under the new name was Richard Sankey, a local colliery proprietor, and he was for a time associated with three others, Oldfield, Oakley and Thomas Jones, the first two of whom are thought to have been actively concerned in local coal and lead industries, while the third was a nephew of John Wilkinson and an ironmaster in a small way.<sup>(2)</sup> The private bank soon became aware of ample opportunities for business development, and appears to have made unusual efforts to meet local requirements. In 1811 it was issuing token coins, a practice rare among banks,<sup>(3)</sup> and a few years later a branch was opened at Denbigh. Situated in the heart of the industrial region, the bank seems to have made good progress, issuing its own notes and keeping the account of the local excise authorities. It was the victim of an unscrupulous attack by a rival bank, formed about 1823, which printed notes almost identical with those of Sankey and Co., but the Flintshire New Bank, as it was called, was soon discredited and disappeared. In course of time Richard Sankey became sole proprietor of the original firm, until with advancing years he decided in 1836 to relinquish his business in favour of the newly-established "Wales Bank".

<sup>(1)</sup> A. H. Dodd: *The Industrial Revolution in North Wales*.

<sup>(2)</sup> A. H. Dodd: *The Beginnings of Banking in North Wales, Economica*, March 1926.

<sup>(3)</sup> Some of these tokens are still in existence, and one in the possession of the Midland Bank is in the form of a silver shilling inscribed "Flintshire Bank Token" and dated 1811.

In spite of the pioneer work of Richard Sankey, it would seem that there remained in Holywell ample scope for banking enterprise, particularly in the provision of facilities for the thriving cotton industry of the district. Thus John Douglas and Christopher Smalley, with the wealth obtained from their cotton spinning mills, set up a bank there some time before 1822, adding a branch in Mold by 1825. The fortunes of the bank ran parallel with those of the industry from which it sprang. For a time it progressed, but when, in the late 'thirties, the Welsh cotton industry fell into decline, the influence and business of the bank began to dwindle. Moreover, it was deprived during this period of the leadership of its vigorous founders; Christopher Smalley died in 1829, and John Douglas survived him by only ten years. Two months after his death the business was purchased by the Wales Bank.

The woollen towns, too, gave birth to small local banks during the period of expanding trade. At Dolgelly, the centre of the Merionethshire and Montgomeryshire web industry, the bank of Thomas and Hugh Jones was founded in or before 1803, though its business was not confined to the textile trade, for the junior partner is thought to have had extensive interests in slate quarrying. Thomas Jones was of Ynysfrig, and had held public office as Sheriff of Merionethshire. The partnership lasted until 1819, when on the death of the founder the bank was taken over by his son, Griffith Jones, in conjunction with Lewis Williams, who had married a grand-daughter of Thomas Jones. The bank extended its scope by opening a branch at Barmouth, and acquired a reputation for stability reflected in a preference expressed by farmers and country people generally for the notes of the old bank over those of the Bank of England, and even over gold. In course of time Lewis Williams became sole proprietor of the bank, taking into partnership his sons, the name of the firm then becoming Williams and Sons, though generally known as the Old Merionethshire Bank. The principal partner filled many public offices during the course of his life,<sup>(1)</sup> and the bank survived not only recurrent financial pressure, but also the decline of the local woollen industry. In 1844 the firm's authorized note circulation was fixed at £11,000, and not for another thirty years did the bank

<sup>(1)</sup> *Bankers' Magazine*, April 1879, Banking Obituary—Lewis Williams. His portrait hangs in the Shire Hall at Dolgelly as a recognition of exceptional public service.

surrender its separate identity. Eventually, in 1873 the business was sold to the Wales Bank.

South of the area served by the Merionethshire Bank is the coastal town of Aberystwyth, and here, if tradition be true, the first bank in Wales was founded. It is said that as early as 1762, when the Custom House was removed from Aberdovey to Aberystwyth, a bank was formed in the rising town, and came to be named the Banc y Llong, or Ship Bank, from the design on the face of its notes. Little is known of the bank's history until, in 1806, it came into the hands of a partnership consisting of John Jones, of Cardiganshire and London, Thomas Morgan, a solicitor of Aberystwyth, and David Davies, also of Aberystwyth. Two years later, on the death of Thomas Morgan, Thomas Williams of Aberystwyth was admitted into the firm, but in 1815 public notice was given of dissolution of the partnership. The reasons for this step are obscure, since it is believed that all liabilities were paid in full; nor can the subsequent fate of the business be determined with certainty.<sup>(1)</sup> There are reasons for believing, however, that the bank was continued by Thomas Williams under the title of Williams, Davies and Co. Rice Jones, who had been apprenticed to the bank on its reorganization in 1806, in due course became a partner, in conjunction with Henry Benson, and all the original names disappeared. Benson was probably the local wine merchant who brought upon himself a torrent of criticism through filling alternately the then profitable offices of mayor and coroner. In 1833 a public complaint was made on the strange ground that the mayor was also a banker,<sup>(2)</sup> but shortly afterwards all occasion of complaint was removed, since the business was sold to the Wales Bank.

The remaining private bank contributing to the subject matter of this chapter was situated outside the industrial region of North Wales, and its business was concerned more particularly with the agricultural pursuits of the mid-Wales border. This was the Kington and Radnorshire Bank, established at Kington and Knighton in 1808, and later operating through agencies at Rhayader, Penybont and Llandrindod Wells. It was not the first bank in Kington, for in 1789 was formed the banking firm of Greenly, Harris, Thomas, Meredith and Co., the partners in

<sup>(1)</sup> Francis Green: *Historical Society of West Wales, Transactions*, vol. IV, 1916, article on "Early Banks in West Wales".

<sup>(2)</sup> G. E. Evans: *Aberystwyth and its Court Leete*.



which were landed proprietors, brewers, tanners and ironmongers. According to a local historian,<sup>(1)</sup> the bank was abandoned three years later following upon a run, but there are reasons for believing that the firm may have survived as Meredith and Co., eventually forming the basis of the new bank which opened in 1808. In that year Edmund Cheese, James Davies and James Crummer began business as bankers, taking out a note licence in the name of the Kington and Radnorshire Bank. The partners are believed to have been landowners and solicitors, but it is known that James Davies was also a coachmaster. There are still preserved old letters in which he answers complaints of delay in the mail carried by his coaches. The bank soon obtained a high reputation, expressed in a considerable note circulation, an achievement extravagantly recorded in the annals of the town.<sup>(2)</sup> "This bank, like all others," runs the description, "possesses the wonderful power of converting an old rag into gold—an act which far exceeds the celebrated transmutation of the alchemists". The anonymous author observes, however, that the firm continued to prosper to the "great accommodation of the district", and records that Edmund Cheese, who died in 1812, "was beloved and respected by all classes of persons". The bank was not without its troubles, and glimpses of difficulties following the crisis of 1826 are to be seen in scattered and irregular records. A run took place in December of that year, but, according to a letter from James Davies to a friend, "he was honoured . . . with the attendance at the Bank of almost all the principal gentlemen of the county, declaring their perfect readiness to support the House by every means in their power". Eventually, the bank took the path travelled by the other private banks of this story, and, after changes of partnership and a division of interests, became merged in larger institutions. In 1856 the Knighton section of the business was absorbed by the Wales Bank.

One by one all these banks came into association with a joint stock company which also was a direct product of the stimulus given by the swift advance of industry in North Wales to the formation of new banks. In the words of Professor Dodd, whose research into the economic history of North Wales has provided invaluable references,<sup>(3)</sup> "the spread of banking undoubtedly gave to the budding local industries a buoyancy and con-

<sup>(1)</sup> A History of Kington, by a member of the Mechanics' Institute (1845).

<sup>(3)</sup> A. H. Dodd: The Industrial Revolution in North Wales.

fidence which would never have been possible under the old financial order". As has been shown, many examples of this development are contained within the history, once removed, of the North and South Wales Bank, and the establishment of the bank itself was in a sense a part of the same general movement. In spite of the support given by English capital to industrial development, there had been until the 'thirties little or no attempt at direct banking penetration into North Wales. This was due in part, no doubt, to the restrictive legislation operative until 1826, but also to geographical configuration and differences of language, which set up barriers to intimate business association. Nevertheless, it was inevitable that the upward surge of economic activity should ultimately attract the attention of banking enterprise, and about the boom year 1836 two banks centred in Manchester and one in Liverpool secured representation in North Wales. The first two soon came to grief, but the third, the North and South Wales Bank, was to become the principal bank of the region.

The North and South Wales Bank—to be known throughout a long and eventful life as the "Wales Bank"—was formed in Liverpool, then regarded as the commercial capital of North Wales. Early in 1836 a prospectus was issued, offering shares of £20, of which one-half was to be paid up. Calling attention to the inadequacy of existing banking establishments to the needs of the "extensive and important mining, manufacturing and agricultural districts comprised within the proposed sphere of operations", it declared that "proprietors of collieries, mining and smelting works are reduced to the necessity of doing most of their banking business out of the district and, in some instances, of submitting to the inconvenience of being their own bankers". Accordingly, the project was boldly conceived to encompass a branch system that should eventually extend throughout Wales. When it is remembered that railways were as yet unknown to Wales, and that the problems of transport and communication remained almost as acute as ever, the venture stands out as one of peculiar audacity, clearly inspired by the excited conditions of the time.

The provisional committee, composed of Liverpool merchants, manufacturers and business men, only a few of them having distinctively Welsh names, showed unusual energy and ingenuity in furthering the project. As a preliminary step, a deputation was appointed to proceed to various towns in Wales and to London in

order to interview leaders of the nobility and gentry of Wales and the Welsh Members of Parliament "for the purpose of obtaining their countenance and support". The committee believed that the goodwill of potential customers could best be acquired by reserving the larger part of the shares for Welsh investors, and, in order "to convey the impression of this Bank being as it ought to be national in its principles with the intention of being national in its practice", recommended that trustees should be selected from the Welsh nobility and gentry. Both suggestions were adopted; Sir Love Parry Price Parry, Bt., Ambrose Lace and John Dean Case were appointed trustees, and applications for shares soon exceeded the 20,000 it was proposed to allot. This ready response may have been due in part to the announcement in the prospectus that every shareholder was to have the privilege of drawing upon the bank on terms of a cash credit to the extent of one-half of his paid-up capital, a dangerous offer which was by no means unusual.<sup>(1)</sup> The capital structure had meanwhile been changed to consist of a nominal capital of £600,000 in shares of £10, upon each of which £7 10s. was to be called up. In April 1836 the bank opened <sup>(2)</sup> in temporary premises in Cook Street, Liverpool, pending the erection of a new building in James Street.

True to expressed intentions, the bank immediately embarked upon the establishment of branches in Wales, and the first activities of the management were directed predominantly to this end. The choice of a principal official was determined, too, by the same objective, for Thomas A. Corlett had formerly been employed in the Provincial Bank of Ireland,<sup>(3)</sup> where he had gained experience in branch banking. Moreover, arrangements were made, even before the bank was opened, to take out a note licence covering twenty-two towns in North and mid-Wales. The energy of the directors was displayed again in the appointment of deputations, and their equipment with "a phaeton and a good strong horse", to journey through Wales with "full powers to treat with any bank or bankers for the purchase of the business of their establishments and also for the appointment of any clerk or clerks they may think

<sup>(1)</sup> See pages 120 and 213.

<sup>(2)</sup> The chairman was Richard Griffith, and his co-directors were Benjamin Thomas, R. W. Prichard, John Jones, John Unsworth, Christopher Bentham and William Jackson.

<sup>(3)</sup> This began business in Ireland before the law permitting country joint stock banks in England had been passed. It operated several Irish branches from a head office in London. See page 354, footnote.

fit", as well as to "proceed to such places as they may think proper with a view to open banks . . . with powers to take premises and allot shares applied for in those districts". Their vigorous action provides an example, probably unique at this period, of a deliberate and determined effort to sweep into one fold the scattered units of banking established over a wide and exceedingly difficult area.

Negotiations were shortly advanced for the absorption of various private banks. Richard Sankey, of Holywell and Denbigh, quickly came to an arrangement to retire in favour of the joint stock bank, though the actual transfer was delayed for some weeks. The price to be paid for the business was an annuity of £500 payable to Richard Sankey for the remainder of his life and to Mrs. Sankey thereafter, if surviving, until her death. Sankey acquired a considerable shareholding in the Wales Bank, and remained as a local director, undertaking "to exert himself for promoting the interest of the North and South Wales Bank as much as possible". Benson and Co., of Aberystwyth, proved equally amenable, transferring their business for a sum of £3,000 payable over three years. Henry Benson remained as a local director, and Rice Jones was appointed branch manager. While these and other similar negotiations were in progress a difficulty was encountered that throws into relief the jealous insularity prevalent in the area. Hardly had the bank been established before it became necessary to call a special meeting of shareholders to decide whether the Liverpool head office should or should not engage in active banking operations. The main objection to carrying on business in Liverpool was clearly explained; it lay in the risk of conveying to the Welsh populace the impression that the branches were to serve as mere cash feeders to the great port, "and that this company would therefore have no greater claim to the title of a Welsh national bank than any other joint stock company which might choose to establish branches in the principality". The importance attached to the question evidently arose from experiences that had already troubled the directors; nevertheless, the meeting decided firmly in favour of a Liverpool office—"Liverpool is treated as the commercial metropolis of North Wales", they declared, and it was essential for the head office to be situated there and to conduct business in the centre of economic affairs. In point of fact, circumstances decreed that the Liverpool business of the bank

should not grow to importance for many years—not, indeed, until towards the end of the century. Incidentally, the meeting in Liverpool appears to have brought the bank to the notice of the Sunday press, which did not often regard provincial banking projects as subjects for editorial comment. About that time, however, a London newspaper favourably announced the formation of the bank in Liverpool, and went on to express, with entertaining frankness, very decided views. "The Directors", it remarked, "are composed of persons of different religious as well as political feelings, and though we cannot do otherwise than deprecate the admission of Tories into any association at all, we can tolerate them when they behave decently and lose the rancorous spirit which so frequently distinguishes the clique."<sup>(1)</sup>

In this earliest stage the bank, besides entering into agreements with existing private banks, was establishing branches as rapidly as possible. At least six had been opened in the North Wales area before a deputation of directors was despatched to South Wales to seek opportunities of extension there. It was while negotiations were in progress with private banks at Brecon and Cardiff that an opportunity occurred nearer home, in January 1837, which required the immediate and undivided attention of the entire board. The deputation was recalled, and negotiations abandoned; and the retreat from South Wales, though believed to be temporary, proved in fact to be permanent, for the negotiations were never resumed, nor were any branches opened in the south. The occasion of this drastic deferment of plans was the collapse of the Northern and Central Bank of England, an ambitious Manchester project which, beginning in 1833, had quickly opened forty branches, many of them in North Wales, and put into circulation a note issue of nearly £400,000. After little more than three years the bank was in severe difficulties,<sup>(2)</sup> and approached the Wales bank with an offer to dispose of its Welsh branches, a proposal which admirably suited the plans of the growing institution. An agreement was quickly reached, and the work of transferring the business of eight branches of the

<sup>(1)</sup> *The News and Sunday Herald*, June 12, 1836.

<sup>(2)</sup> The Northern and Central Bank of England "died of reckless ambition" and was formally wound up in 1839. L. H. Grindon: *Manchester Banks and Bankers* (1878). A similar fate befell the other Manchester bank which penetrated into North Wales. In 1836 the Bank of Manchester opened a branch in Newtown, Montgomeryshire, a step which, it is stated, provoked a "sudden and unhealthy increase in trade". (Dodd, *op. cit.*) In 1842 the branch was taken over by the North and South Wales Bank.

distressed bank, some in towns where the Wales Bank had already made a beginning, was immediately put in hand.

The results of this enterprising policy—a policy, as events were shortly to show, too bold for safety—were shown in the directors' report on the first year's working of the bank. Thirteen branches and ten sub-branches had been acquired, and of these the most remote was the Aberystwyth office, over one hundred miles from Liverpool. The difficulties of securing competent management and equipment for these scattered new branches were great, and provided some foundation for the embittered comment of a Bank of England official journeying through the district. He observed:—

“ The competency and respectability of many of the people at the branches [of joint stock banks], I should say . . . , must be very low indeed. In travelling through Wales two years ago, I could not help seeing that they were carrying on banking almost farcically, for instead of meeting one's ideas of a respectable establishment, there was a small cottage more like a huckster's shop than a bank, with ' Bank ' written in great characters over it.”<sup>(1)</sup>

The balance sheet figures, moreover, were such as to give warning of trouble to come. The paid-up capital was £159,000 and deposits amounted to £140,000; but loans and bills together exceeded £367,000. Already the bank was seriously overlent, and it was not long before the unduly rapid expansion brought unhappy consequences.

The general collapse of credit that followed the speculative excesses of 1836 was more serious in its accompaniments in North Wales than in most other parts of the country, for it marked the beginning of permanent retrogression in some of the local industries. In consequence the Wales Bank found itself burdened with heavy demands for assistance to tide over the difficult times, and was forced to cope with a rising total of bad debts and overdue bills. In these circumstances the bank was obliged to lean heavily upon its London agent, the London and Westminster Bank,<sup>(2)</sup> until by the end of 1839 the position was so grave as to call for extreme measures. In return for a loan of £110,000 from the London bank

<sup>(1)</sup> Evidence of S. Turner, agent of the Liverpool branch of the Bank of England, before the Select Committee on Joint Stock Banks, 1838.

<sup>(2)</sup> The incident demonstrates the speed with which the joint stock banks in London obtained a foothold against the strong opposition of the private banks, for the London and Westminster was at this date only five years old. Compare chapter IX.

the Wales Bank agreed to pledge as security "all the bills of exchange they now hold at Liverpool, and all the securities they possess, including the securities lodged with them by their customers, and the deeds of the New Bank premises". In addition, the Wales Bank undertook to liquidate its entire business in Liverpool, where the largest commitments had been made, except to the extent rendered necessary by the activities of the Welsh branches. The directors, besides giving their personal guarantees for £20,000, promised "not to content themselves with applications or pressure for the liquidation of overdrawn accounts, but energetically to pursue whatever remedies they may be able to resort to for the recovery of accounts due in January next"; they began, moreover, by reducing their own overdrafts by one-half. The bank also bought considerable quantities of its own shares in order to arrest the fall in their market price, while the note circulation was deliberately curtailed.

These stern measures could not fail to bring about a shrinkage in business, and deposits fell from £221,000 in June 1840 to £179,000 a year later, while advances and bills were brought down from £529,000 to £372,000. Auditors were appointed to examine the accounts, and their reports in 1841 and 1842 referred to the substantial proportion of the resources absorbed in large advances, and the "gross waste of property arising entirely from mismanagement and neglect from the very commencement of the bank". These were strong words, but the total losses since 1836 were estimated at no less than £54,000, equal to one-third of the capital, and the directors themselves, in their report to the general meeting in 1840, admitted that "the bank [had been] led into the common error of extending its business beyond what the limits of its capital justified". By stringent economy and cautious conduct the bank steadily overcame its difficulties, though dividend payments were not resumed until 1844, and the bad debts were not fully written off for another two years. The bank thus paid dearly for its participation in the industrial expansion of North Wales.

Yet even during these anxious days the process of extending the bank's representation was continued, and an opportunity which occurred in the straitened period of 1839 was boldly seized. At the end of that year it was rumoured that the bank of Douglas, Smalley and Co., in Holywell, was expected to suspend payment.

John Douglas, the principal of the firm, had died in October, and both the cotton mills and the bank had passed into the hands of a Manchester partnership of cotton-spinners, though they were carried on under the old name.<sup>(1)</sup> The decline in activity in the Holywell cotton mills must have been clear to everyone in the neighbourhood, and the credit of the bank was immediately called in question. By the end of the year the Wales Bank had agreed to take over the business of the private bank at both Holywell and Mold, entering into possession of the premises and issuing public notice of the transfer. Unhappily, the original agreement was never completed, the partners in the Holywell business being adjudicated bankrupt soon after it was entered into, and the transaction therefore being reopened with inconclusive results; but the Wales Bank quite definitely appeared as successor to the private firm.

So, also, the opening of new branches did not cease, though the total number showed little alteration, since three were closed, all of them in the woollen areas, which had suffered acutely during the trade depression. As further evidence of the survival of a spirit of keen enterprise despite the difficulties of the times, one of the new branches was situated at Cardigan, almost as far south as the bank ever ventured, but it did not remain for long within the structure of the Wales Bank.<sup>(2)</sup>

In more than one sense the early difficulties came at a most unfortunate time, for the course of legislation was such that in an important respect they were perpetuated. During 1843 the bank was still endeavouring to reduce its note circulation, and at one time even contemplated withdrawing the entire issue. A joint protest from branch managers succeeded in preventing this stern measure, but the amount outstanding was kept as low as possible. So it happened that, when the Act of 1844 imposed an immovable limit upon future issues, the Wales Bank received an authorized issue of only £63,951, a figure so much below the needs of the area that in later years considerable trouble and anxiety was experienced in observing the limit.<sup>(3)</sup>

(1) "Robert Gibson, now or lately carrying on business in Holywell . . . in co-partnership with Edward Wetherby, James Hilton Ford, Richard Addison and W. L. Hilton, as bankers under the name, style or firm of Douglas, Smalley and Co." *Liverpool Mercury*, notice of bankruptcy, April 24, 1840.

(2) See page 185.

(3) Thus in the early 'sixties the Wales Bank, when its note issue was up to the statutory limit, arranged with Rocke, Eyton and Co., bankers at Shrewsbury, to issue their notes, and received a commission for doing so.



Yet the period of trial brought good as well as evil, for one direct result of the crisis was a change in the management that was to contribute powerfully to the future success of the bank. George Rae<sup>(1)</sup> who was appointed general manager in 1845, ultimately brought the Wales Bank to the front rank among provincial institutions, notwithstanding that after less than two years' experience in the position he was called upon to steer the bank through the most difficult period in its career. The disaster of 1847 occurred partly as a consequence of the early conduct of the bank itself; yet it is probably true to say that the larger share of responsibility lay with extraneous circumstances. A year earlier the bank had cleared off all outstanding bad debts from the early 'forties, and, although some dormant accounts of doubtful value remained, the position was far stronger than for many years. Nevertheless, the old and dangerous excess of loans over resources persisted, and in 1846, when deposits stood at £393,000, loans and bills amounted to £590,000. In consequence, re-discounts with London were running at a high figure, while in addition the bank was borrowing on bills from banks in Ireland and Westmorland. On more than one occasion during these years the directors had been obliged to refuse temporary loans to local railways, even at the cost of losing the accounts, simply because the London agents would not consent to provide funds above the agreed limit. At the same time, two large commitments were disturbing the management. First, in 1846 the bank had been obliged to take over the Cefn Collieries, and had since controlled them, not without success, by a committee composed of a director and the general manager; a long-continued strike at the pit, however, proved a costly addition to the burdens of the bank. And secondly, the township of Birkenhead was at this period expanding rapidly, and heavily mortgaging future income. Time and again the directors of the bank had endeavoured to prevent further increases in the already large debt of the Commissioners, but they, pleading that additional accommodation was "absolutely essential for the credit and safety of the township", repeatedly over-rode the lenders' protests.

Such was the position of the bank when the crisis of 1847 broke over the financial world. Already the rising discount rates in London had led the head office of the Wales Bank to instruct

<sup>(1)</sup> See biographical sketch: George Rae.

branch managers to restrict discounts and advances, and to allow rates as high as four per cent on deposits. At the beginning of October the sudden cessation of discounting by the London money market forced the Wales Bank to order a "rapid reduction of overdrafts and bills as an imperative necessity". Attempts were made to re-discount bills with Scottish banks, while the general manager proceeded to London and Birmingham in search of funds. But the restricted conditions weighed even more heavily upon other Liverpool banks, and about the middle of the month two of them failed.<sup>(1)</sup> Both were important joint stock institutions, and their collapse aroused apprehension among the public as to the condition of the others, including the Wales Bank. A run at Liverpool ceased after a few days, and a steady drain of deposits at some of the branches was being met satisfactorily when, on October 22, a London newspaper<sup>(11)</sup> which specialized on market reports and circulated largely in North Wales announced that the North and South Wales Bank had stopped payment. The report was quite untrue, and was promptly contradicted both by the London agents of the Wales Bank and in later editions of the newspaper. But the damage had already been done. In the words of George Rae<sup>(111)</sup> "the report exploded amongst our branches like a shell, and literally blew the bank up. Traversing a large aggregate of liabilities in a few hours and at twenty different points without notice—without an instant of time allowed us to turn in—it rolled back upon the Head Office a volume of demands . . . impossible for us to meet." Two days later the bank suspended payment.

In this second and partially unmerited crisis the directors set to work to salvage as much of the business as possible. With a view to obtaining assistance, in the form of cash resources, deputations waited upon the Chancellor of the Exchequer and the Bank of England, but without success, the refusal from the Bank of England being based on the ground that "the securities [on real property] were not of that description upon which they usually made advances". Accordingly the only ways of re-establishing the bank's position were by issuing fresh capital and taking steps to ensure that the run would not be renewed. The first step was achieved by creating £100,000 of seven per cent

<sup>(1)</sup> The Royal Bank of Liverpool and the Liverpool Banking Company.

<sup>(11)</sup> *The Express*, October 22, 1847.

<sup>(111)</sup> In a letter to the *Liverpool Mercury*, October 29, 1847.

preference shares, most of which were eventually taken up by shareholders; while the second requirement was attained by persuading depositors to accept, in respect of the amounts due to them, the bank's post bills maturing at quarterly intervals during the succeeding eighteen months. Deputations of directors visited the principal towns in the bank's area, holding public meetings in order to enlist the full and rapid support of customers. The melancholy tour proved successful, a large proportion of the depositors signing agreements to accept post bills for their deposits, and with this encouragement the directors were able to call a general meeting in December to explain the position of the bank. It was revealed that, while deposits amounted to £327,000, and notes in circulation to only £36,000, loans and bills exceeded £564,000, and of these the irrecoverable assets were computed at £30,000. There was a surplus of total good assets over liabilities of £153,000, as compared with paid-up capital of £165,000 actually in the hands of the 260 shareholders—the bank held its own shares to the amount of about £50,000. It was by no means a hopeless position, and the meeting unanimously decided to reopen the bank as soon as possible.

A preparatory step in this direction was the curtailment of the bank's range of operations by disposal of some of the branches; that at Cardigan was sold to a private bank, while those at Portmadoc, Pwllheli and Festiniog were formed into a new private bank, to be known as Cassons and Co. Here arose a curious complication. Hugh Pugh, who was in the service of the Wales Bank at Pwllheli branch, set up as a banker on his own account, and, in spite of the opposition of the newly-formed Cassons and Co., succeeded in retaining much of the business of the branch, his firm becoming H. and L. Pugh and Co., or the Pwllheli District Bank.<sup>(1)</sup> In addition, a few other branches were closed, including the offices at Bangor and Dolgelley, a place of glowing industrial promise not many years before.

The original plan of widespread branch representation having been thus modified, the directors, with some misgivings, decided to open for business once again. In January 1848, after nearly three months of suspension of business, it was decided to pay the notes of the bank at all offices and in London, since "the

<sup>(1)</sup> The bank was taken over by the National Bank of Wales in December 1890, see page 103. By a series of amalgamations it also became part of the Midland system.

directors felt bound to consult the convenience of the holders of the notes whose forbearance they believe to be without precedent—not a single holder up to that time having pressed for payment". Later in the month, branches were cautiously reopened for general business, and the bank resumed normal operations. Strenuous measures were adopted to consolidate the shrunken position of the bank, a task that was to occupy the management for the next eight years. Among the most important, the old, large bad or doubtful overdrafts were cleared off in various ways. An agent for the sale of the bank's coal was appointed at Oswestry, and in two years the Cefn Collieries were sold, though not without considerable loss. Next, George Rae made a personal study of the financial position of Birkenhead, himself accepting office as Commissioner of the township, and a scheme of rehabilitation was evolved. The bill embodying the plan was passed through Parliament and the bank, while remaining a considerable creditor, was able to realize its securities during the ensuing years.<sup>(1)</sup> Meanwhile, by 1849 the whole of the post bills issued at the time of suspension had been met, and the preference shares repaid. Finally, in 1852 the amount paid up on each share was reduced from £10 to £7 10s., and the outstanding bad debts extinguished. A year later the paid-up capital stood at £161,000, while deposits, at £454,000, exceeded the total for 1847. Yet loans and bills, at £558,000, were still disproportionately high.

It could by this date be said that the bank had definitely overcome the second of the crises which marred its early life; thereafter it was possible to pursue an unbroken course of expansion. For the form the process took in the history of the Wales Bank the initiative of George Rae was mainly responsible. Thus at an early stage he began a critical examination of the disposal of the bank's resources with a view to raising the level of income. By modern standards the bank's funds were more than fully occupied, but now that industrial development in North Wales had spent its force the business was preponderantly associated in that area with agriculture, and outlets were not easily found there for all the sums placed with it. Consequently a larger proportion of funds tended to seek employment in Liverpool, where the bank was still of little importance. In 1855 the surplus of deposits over loans at branches amounted to no less than

<sup>(1)</sup> See biographical sketch : George Rae.

£170,000, and the amount was steadily increasing. Part of it was employed in supporting Liverpool projects for railway development, which at last was rapidly extending into the principality, and an increasing part in investment in bills in the London market.

Secondly, a further step was taken in fulfilment of the early policy of absorption of private firms. In April 1856 the Knighton portion of the old Kington and Radnorshire Bank was taken over, upon an offer from the private firm, made partly, it is said, to remove the confusion in address between Kington and Knighton. The business was small but profitable, and for a sum of only £1,000 the Wales Bank fell heir to the long-established business, the Kington section remaining as an independent firm for more than fifty years.<sup>(1)</sup> Although this absorption contributed little to diversification of the bank's interests, since Knighton was a purely agricultural town, yet it did mark a resumption of geographical expansion.

The next means of extension was a rather unusual one for its time. In 1856 a savings scheme was instituted for the workmen at the docks at Birkenhead, where the bank was still largely interested in public development. Small sums were paid to an elected treasurer, who kept an interest-bearing general account with the bank, and, upon any one person's savings reaching ten pounds, an ordinary deposit receipt was issued to him, and the general account reduced accordingly. The same plan was later followed at Rhyl. Finally, as a further means of growth, in 1863 a method of expansion, novel at that time, was begun by the opening of "town" branches in Liverpool, three of these being placed about a mile from the parent office and bearing names to signify their geographical situations—north, south and east Liverpool branches. It is at least possible that this was the first development of its kind outside London, though it was inspired by the belief that one or other of the new banks formed in Liverpool was about to take a similar step. In any event, the departure was well in advance of general practice, and earned for the Wales Bank in Liverpool the title "Tradesmen's Bank".

Curiously at first sight, there was at this stage no rapid and

<sup>(1)</sup> The partners at the time of absorption were Davies, Crummer, Oliver and Richard Green, the last being a solicitor, and apparently the most active of the members in the Knighton section of the bank. Deposits at Knighton were £12,000, and notes in circulation approximately £10,000. The remaining Kington firm of Davies and Co. was absorbed by the Metropolitan Bank in 1910. See page 320.

widespread branch expansion in Wales. True, two or three new offices were opened, but not until the last quarter of the century did any marked development in this direction take place. The principal reason for this quietude is to be found in bank agreements. The only rival bank in North Wales was the powerful National Provincial, and there was evidently a clear understanding between it and the Wales Bank, mainly with regard to territories and terms of business. There are records of complaints during the early 'fifties that some branches of the National Provincial were "breaking agreements as to rates", and in the early part of 1856 a long quarrel was working itself out between the Holyhead managers of the two banks, arising out of an accusation by one manager that his rival had "seduced one of their customers . . . by offering him 4½ per cent on his deposits". The rule seems to have been that each bank advised the other of any change in rate, and undertook to observe the rate quoted. As to area, in the early 'sixties an informal undertaking was arrived at between the general managers of the two banks to the effect that neither would invade the territory of the other. For many years thereafter, such branches as were opened by the Wales Bank were nearly always described as determined upon "by arrangement with the National Provincial Bank".<sup>(1)</sup>

In the decade following the disaster of 1847 the course of the Wales Bank had been consistently prosperous, so that the financial crisis of 1857 was surmounted without difficulty, in spite of the failure of an important Liverpool joint stock bank. In 1862 a last reminder of the suspension period was swept away—the paid-up capital was restored to £10 per share by the allocation of £2 10s. per share out of surplus profits. Again, the difficult times of 1866, particularly acute in Lancashire and Liverpool,<sup>(2)</sup> brought no serious disturbance to the bank, largely because of the perspicacity of George Rae<sup>(3)</sup> and because its business was still predominantly Welsh. Indeed, the collapse of two Liverpool joint stock banks at this stage, like the single failure ten years previously,

<sup>(1)</sup> The informal arrangement of the Wales Bank with the National Provincial Bank lasted right down to the amalgamation with the Midland in 1908, but towards the end of the nineteenth century the advent of rival banks into the area had considerably modified its completeness.

<sup>(2)</sup> See chapter V.

<sup>(3)</sup> It is reported that a few days before the crash he happened to be shown some bills held by Overends, and from his knowledge of the parties immediately withdrew the deposit of the North and South Wales Bank with the firm. *Liverpool Daily Post*, August 5, 1902, obituary notice, George Rae.

brought to the Wales Bank a considerable increase in business. In 1868 deposits reached £1,780,000, while the paid-up capital had been raised to £300,000 and a reserve fund of £150,000 accumulated. Loans and bills together amounted to £2,011,000—a total still in excess of liabilities to the public—and dividends were being distributed at a rate of 17½ per cent. A year later the bank, by publishing a balance sheet with its annual report, made a notable departure from the secrecy still observed by provincial banks in general.

This was a period of high achievement for the Wales Bank, during which it grew from a provincial institution of moderate size into one of the largest and most influential country banks in England and Wales. Still, however, no effort was made to venture far beyond the area already covered; instead, a policy of intensive development in North Wales, and more particularly in Liverpool, was consistently pursued. For the fulfilment of this policy the bank was fortunately situated; the ever-growing commerce of Liverpool now provided ample scope for employment of the resources provided by an agricultural and residential district. As part of the process of consolidation, some of the remaining private banks within the region were taken over. The firm of Williams and Sons, operating at Dolgelley and Barmouth, was purchased in 1873, and two years later Cassons and Co.<sup>(1)</sup> was re-united with its parent bank after nearly thirty years of independent life. To the original branches at Portmadoc, Pwllheli and Festiniog, received from the Wales Bank in 1847, Cassons had added offices at Blaenau and Harlech, and deposits had grown to a total of £242,000 by the time of re-absorption. Again, in 1877 the Bala Banking Company, a small limited company with offices at Bala, Corwen and Dolgelley, was taken over. The bank had been established in 1864 with a paid-up capital of only £9,000, and, by offering rates of interest generous beyond the limits of prudence, had attracted £100,000 in deposits. Forced by its own policy into the assumption of undue risks, the bank encountered a heavy loss from the failure of a corn merchant in Liverpool, and this brought about its downfall. In December 1876 the Bala Banking Company closed its doors, and after a full investigation the North and South Wales Bank agreed to take over the business, paying the depositors in full. The growing business of the Wales

<sup>(1)</sup> The business was acquired for £12,000.

Bank was further demonstrated in 1873 by the purchase of new premises for the head office at 60 and 62 Castle Street, Liverpool.<sup>(1)</sup>

In this strong position the bank was well able to weather the crisis of 1878, though the period was not without anxiety. For some time previously anonymous circulars had been widely distributed, referring in alarming terms to the unlimited liability of shareholders in the Wales Bank and maliciously suggesting that the high market price of its shares was due to manipulation on the local stock exchange. Accordingly the failure of the City of Glasgow Bank, which clearly demonstrated the dangers of unlimited liability, gave the signal for a drain of deposits from the Wales Bank, resulting in the withdrawal of nearly £1 million, or roughly one-fifth of the total, in a few days. Happily, methods of transport were at this stage much swifter than on a similar occasion thirty years earlier, and there was no irresponsible newspaper statement to turn uneasiness into panic. Accordingly, the demands were fully met and the run quickly subsided.

The power to cope with such disturbances had, moreover, been increased by the measures adopted by Rae with a view to raising the standard of liquidity observed in the bank. Three years before he had begun the submission to the board of weekly financial statements setting out the ratios for the various items over which the bank's funds were distributed. Until that time loans and bills had almost invariably exceeded deposits, but thereafter the relative weight of advances was reduced, and the proportion of bank funds invested in gilt-edged securities increased. Following the events of 1878 the distribution of bank funds was altered once again, and came to approach much more nearly the ratios current in present-day banking. In view of the prominent part taken by Rae in the legislation adapting limited liability to the purposes of banking, it is not surprising that the North and South Wales Bank re-registered with limited liability in 1880, the shares of £10 each fully paid being converted into shares of £40, with £10 paid and £30 held as "reserved liability", the only curious feature of the re-arrangement being that no part of the capital was "callable".

The period from 1868 to 1895, when regular dividends of 17½ per cent were paid, represented the peak of the bank's prosperity ;

<sup>(1)</sup> Now the 62 Castle Street, Liverpool branch of the Midland Bank.



thereafter the rate of return on the capital declined slightly, for reasons which are readily discoverable from the peculiarly detailed records made and preserved. In the first place, the bank was now meeting with intense competition from enterprising rivals in Liverpool and elsewhere,<sup>(1)</sup> and the old "understanding" which divided the area between two institutions eventually disappeared. Then again, the re-distribution of the bank's funds, already noted, was reflected in lower profits, while the nature of a large section of the business had undergone a considerable change. Formerly the bank's agricultural customers had borrowed largely on bills and promissory notes. These bore a more or less fixed rate of discount about the same as the rate on advances, and, since the borrowers were frequently careless as to date, often yielded a penalty commission for being left unpaid until "past due". Altogether, this was a practice that brought a high rate of return to the bank, but during the last quarter of the nineteenth century it fell into disfavour, to be replaced by the method—more economical to the customer—of borrowing by way of loans and overdrafts at competitive rates. Incidentally, the proportionate contribution of branches in agricultural and residential districts to the resources of the bank was falling; in 1870 deposits from country branches accounted for 67 per cent of the whole; twenty years later they were 42 per cent of the greatly increased total, and the reduction was permanent. On balance this relative decline of the country business, notwithstanding a rapidly growing Liverpool connection, led to a reduction in the net return on the bank's resources. In 1865 the percentage return on the total resources of the bank was 3.67, while working expenses amounted to 28 per cent of the gross profits thus computed; thirty years later the percentage return had fallen to 1.01, while working expenses then absorbed 50 per cent of the profits.<sup>(11)</sup>

By the end of the century the management of the bank—now bereft of the active leadership of George Rae<sup>(111)</sup>—was concerned to find outlets, in additional advances to trade and industry, for a larger proportion of its resources. The somewhat stringent cash ratio observed since 1878 was relaxed, and a progressive

<sup>(1)</sup> See page 154 *et seq.*

<sup>(11)</sup> The figures here set out are part of an unusually detailed collection of internal statistics, forming another tribute to the thoroughness with which George Rae informed himself and his directors of the trend of affairs within the bank.

<sup>(111)</sup> He retired from the position of chairman and managing director in 1898, and remained as an advisory director until his death in 1902.

search for new lending business was undertaken. In particular, attempts were made to extend operations in Liverpool, where ample opportunity existed in the greatly enlarged volume of trade. Already a considerable increase had taken place in the number of branches in the city and outlying districts, as well as throughout the Wirrall, but in 1901 a far more decisive step was taken. In that year the bank absorbed one of the oldest and most highly respected Liverpool banks, the private firm of Leyland and Bullins. The history of this bank has been outlined in an earlier chapter,<sup>(1)</sup> but an indication of its standing is given by the valuation of goodwill, which was placed in the purchase agreement at £210,000.<sup>(2)</sup> Largely for the purpose of carrying through the absorption, the paid-up capital of the Wales Bank was increased to £750,000, and at the close of 1901, with this accession of strength, deposits amounted to £10,804,000, and advances and bills to £7,054,000.

Although this absorption added materially to the bank's connection, it soon became clear that opportunities for regional development were limited. The Wales Bank found that its business still showed a distressing tendency to stagnate, and deposits were maintained only with difficulty. Further, the step designed to secure a happier balance of interest proved after all to create fresh difficulties, for the greatly enlarged Liverpool section of the business was found at times embarrassing. In particular, the seasonal expansion of advances required by the cotton trade was difficult to meet, and at such times the position of the bank, judged by the old system of weekly ratios, was more than a little strained. Finally, the bank suffered in common with its contemporaries from the fall in market values of government securities: in 1901 its holding of consols was written down to 90, the directors observing that "unless the British Empire is submerged [!!], we need hardly make any further provision on that score". Two years later the stock was re-valued at 87½, and in 1905 a further sum was applied to bring the figure down to 85.

Despite strenuous efforts, the Wales Bank was by this time only just holding its position. For a time the directors contemplated opening branches outside their area, more especially in South

<sup>(1)</sup> See chapter V, and also biographical sketch: Thomas Leyland.

<sup>(2)</sup> In addition, £65,000 was paid for the premises of the three Liverpool branches of the firm. The then head office of Leyland and Bullins is now the 36 Castle Street branch of the Midland Bank. John Naylor, one of the partners, joined the board of the Wales Bank.

Wales, but, though more branches were opened, they did not in fact go far beyond the existing boundaries. The unfavourable prospect, coupled with the American crisis of 1907, which brought losses to many Liverpool banks, precipitated a more momentous decision. During the following year negotiations were initiated for amalgamation with the Midland Bank, then of some years standing in Liverpool and Lancashire, though entirely unrepresented in North and mid-Wales. By November 1908 the arrangements had been completed.<sup>(1)</sup>

Although the amalgamation solved a difficult problem for the directors of the Wales Bank, the advantage was by no means all on the side of the provincial undertaking. The Midland Bank was equally anxious to carry through its largest "country" amalgamation until that time, and to spread its representation over an even broader area. At the time of amalgamation the Wales Bank, with a paid-up capital of £750,000 and reserve fund of £512,000, operated through 84 branches and 24 sub-branches; its deposits amounted to over £11 millions, while advances and bills stood at more than £7½ millions.

The story of the Wales Bank reflects with peculiar vividness the economic history of North Wales. Beginning as a boldly-conceived project that was part and parcel of an irresistible tide of rapid industrial development, the bank was carried swiftly upwards, only to fall back almost immediately with the turn in economic affairs, a change so sharp that it was very nearly submersed. Thereafter and for many years the Wales Bank was a small provincial institution of little more than local account, operating in a region prematurely bereft of the vitalizing stream of industry and faced with all the difficulties of painful re-adjustment in economic life. The advent of industry into North Wales had to some extent modified a natural isolation, long preserved by difficulties of communication and differences of race and language, but the decline in economic activity tended to weaken the newly-forged links. Gradually, however, improvement in transport facilities once again worked strongly towards closer unification, and this time the change was lasting, to find fuller expression in banking consolidation.

<sup>(1)</sup> The terms were: 7 Midland shares (of £60, with £12 10s. paid up) and £3 10s. cash for 10 Wales Bank shares (of £40, with £10 paid up). Four directors of the Wales Bank were elected to the board of the Midland, and two of these, Sir Thomas Royden and Mr. F. H. Fox, remain.

## APPENDIX TO CHAPTER VI

## NORTH AND SOUTH WALES BANK

## EXTRACTS FROM BALANCE SHEETS

(£000 omitted)

Date	Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills
1840 ...	215	10	64*	221	352	177
1850 ...	215	nil	24	275	255	184
1860 ...	161	38	58	936	466	621
1870 ...	300	150	55	2,025	1,018	942
1880 ...	500	250	46	4,597	1,632	1,695
1890 ...	600	400	51	6,643	2,247	2,492
1900 ...	600	400	46	9,316	3,896	2,251

\* Authorized circulation under Act of 1844

CHAPTER VII  
YORKSHIRE AMALGAMATIONS

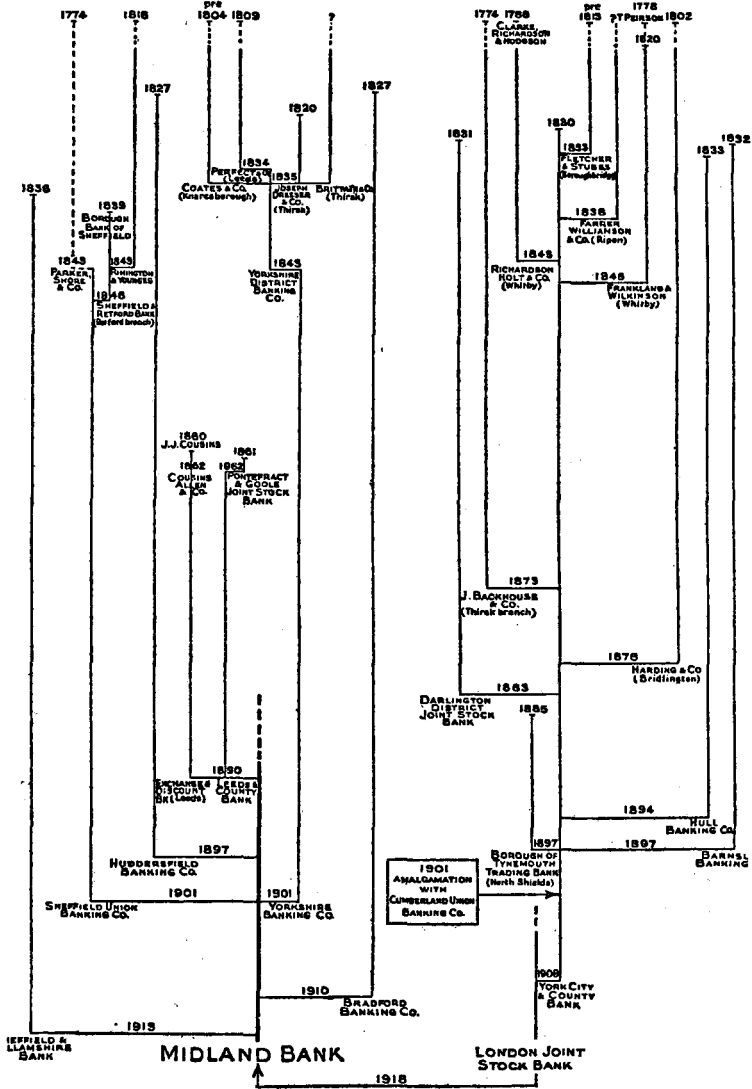
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The first absorptions of the Midland Bank in Yorkshire were made in 1890, and embraced the Exchange and Discount Bank, of Leeds, and the Leeds and County Bank. Seven years later an amalgamation with the Huddersfield Banking Company strengthened the connection, and in 1901 the Yorkshire Banking Company and the Sheffield Union Banking Company were both taken over. A further consolidation of forces took place in the pre-war years, when the Bradford Banking Company and the Sheffield and Hallamshire Bank were gathered into the Midland system in 1910 and 1913. The last stage was the amalgamation with the London Joint Stock Bank in 1918, for nine years previously that bank had absorbed the York City and County Bank.

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AS in North Wales, so in Yorkshire private banking had developed on a wide scale by the opening of the nineteenth century. Yet the banking histories of the two areas are clearly contrasted, for banking in Yorkshire was able to draw upon the wealth accumulated from long-established industry and a favoured agriculture. Yorkshire, besides being the largest, is among the most richly endowed of English counties. To the basic occupation of agriculture had been added a great textile industry and an important iron and steel manufacture, both of long standing and both drawing upon the abundant natural resources of the county, while a number of subsidiary trades rested on these staples. The woollen and worsted industries of Yorkshire had by now become concentrated in the West Riding, but, while worsted had early developed as a factory industry, there remained a substantial domestic woollen industry, carried on in the cottages of skilled weavers. Not until the fourth decade of the nineteenth century, upon the application of steam power to weaving and the increasing use of machinery in all branches of the industry, did further concentration in urban areas begin, and this time it was accompanied by increasing specialization of individual towns upon particular products. Again fortunate in the possession of ample supplies of coal, the area was able to support a very rapid expansion in this second phase of the industrial revolution. The population of the West Riding, which at the beginning of the century was rather more than half-a-

**MIDLAND BANK—YORKSHIRE CONNECTION**



million, about two-thirds that of the whole county, increased both absolutely and relatively; by 1831 it was approaching one million, and in 1901, at a figure of nearly 2 $\frac{3}{4}$  millions, it represented about three-quarters of the county's total.

The other great industry of Yorkshire, the manufacture of iron and steel, was bound up with available fuel resources, and here again the existence of coal-bearing strata running through the West Riding from Leeds to Sheffield was a powerful factor in bringing about the concentration of people. By the end of the eighteenth century there were thirteen blastfurnaces in the West Riding, and the mining industry had begun upon a development which was to make earlier efforts seem little more than a mere raking of surface soil. In this period Sheffield, with its superior quality ore, its beds of gritstone and limestone and plentiful water-power, took the lead in the iron and cutlery trades, for in 1772 Benjamin Huntsman established his steel works at Attercliffe. About the same time extensive workings in the ore to the north of the district formed the basis of the great iron trade of Low Moor and Farnley, whose marks became of wide renown. During the nineteenth century these early projects developed into a large and important industry. The rapid growth of demand for coal and iron resulted in a marked extension of mining operations, especially along the Barnsley seam of high quality coal, a district remarkable for the early application of mechanical aids to production. All branches of the iron and steel trades leapt into prominence. Wire-drawing as a specialized trade became established in Halifax and Barnsley. Railway building from the 'thirties onwards provided a growing market for the products of coal and iron, while the use of metal for machinery in the wool and other industries intensified the rising demand. By far the most important example of specialization, however, was the remarkable concentration of the cutlery and steel industry in and around Sheffield. Moreover, the making and repair of textile machinery was quite naturally carried on in proximity to the centres of woollen production, since metal and skill were close at hand. So it is that engineering shops, which later became complex works, were established in all the leading centres of manufacture. Leeds, Bradford and Huddersfield attained a high degree of skill in the production and repair of the machinery employed in their neighbourhoods, while Leeds became as well a centre for the building of locomotives.

The relative importance of iron was greatly diminished by the invention of cheaper large-scale methods of producing steel after the turn of the half-century, and, moreover, for a few years large imports of iron ore became necessary to supplement the home supply, much of which was unsuitable for steel making. While Sheffield increased its importance with the new turn of events, it seemed that the iron-mining industry of Yorkshire would suffer decline. Here again, however, Yorkshire proved fortunately equipped in the very extensive Cleveland iron ore deposits of the north-east. As soon as the chemist had devised a means of utilizing this highly phosphoric ore, furnaces and works sprang up along the Tees.

The nineteenth century, therefore, was a time of great changes in the industrial organization of Yorkshire, for the most part in the nature of rapid advance, though not evenly spread between the various trades, nor always accomplished without hardship and disturbance.<sup>(1)</sup> Some old-established branches of economic activity, such as the manufacture of linen, the pottery trade and mining of non-ferrous metals, steadily declined, but these were more than compensated for by the multiplication of subsidiary industries—dyeing in Leeds and Bradford, and the production of associated chemicals; ready-made clothing at Leeds after the introduction of the sewing machine and band-saw; shoddy and the rag trade at Dewsbury, Batley and Morley. The general movement from domestic to factory organization was encouraged by the activity in railway construction, which spread across the face of the country in the three decades following upon 1830. In many ways the growth of industry in the latter half of the century depended upon the railway, just as in the earlier years it had relied upon the canals. The development of railways not only provided a strong stimulus to the iron manufactures of the county, but led also to a swift expansion in the market for its textile manufactures and made possible the rapid transport of bulky raw material and finished goods.

The growing trade of the area threw a heavy burden on the principal sea-ports. Of these by far the most important was Hull,

<sup>(1)</sup> Thus the application of power-driven machinery to weaving was met by the "plug-drawing" riots of the hand-loom weavers, and in the records of the Bradford Banking Company, whose history is told in later pages, it is stated that in 1838-9 "several gentlemen came forward to help to protect the property and premises". Similar difficulties were experienced in the Chartist disturbances of 1848-9, when "a Mr. Brigg and several gentlemen came forward to guard and defend the bank".



then as now the third port, in order of traffic, of the United Kingdom. At the beginning of the century whalers were still sailing from Hull for Greenland, but by the 'thirties activity in this direction had practically disappeared, leaving as a valuable heritage a skill in bone-crushing and oil-refining which was later turned to good account. As the trade of the district grew, so did the business of the port, both coasting and foreign. Ship-building, too, had for centuries been carried on along the Yorkshire coast. The industry at Whitby rapidly declined with the coming of the iron ship, while Hull, though meeting the change to iron and steel, produced mainly the type of vessel associated with the fishing trade of the port. Larger construction went to the cheaper northern districts. The railways of North America made it possible by the last quarter of the century to import cheap grain, so that the ports of the United Kingdom became great granaries and milling centres, and of this development Hull secured its full share. Oil-seed crushing and oil refining grew to be of great importance ; so also did the manufacture of colours and cleansing materials, in which the town had for long been engaged. Several abortive efforts were made to found a local cotton industry, but the undertakings, although at one time attaining considerable size, were unable to meet Lancashire competition. The fishing trade of the Yorkshire coast expanded rapidly towards the end of the century, when improvements in transport facilities and new methods of refrigeration greatly extended the market for fish. Hull was the centre for this flourishing trade, rivalling Grimsby as a fishing port, while other towns, such as Whitby, played a more modest part in general progress.

It should not be forgotten that agriculture retained a position of importance in Yorkshire. The census returns of 1831 describe the East and North Ridings as being "entirely agricultural" with the exception of Hull, while even that place had only the manufactures "indispensable at an active sea-port". The towns of these two Ridings remained, therefore, marketing centres engaged in husbandry, tanning, and the supply of agricultural necessities generally. Even in the West Riding a considerable number of people were engaged in agriculture. In effect, however, the large additional population was going into the new industries, which recorded heavy increases in numbers employed, while agriculture showed but a small addition. Between 1831 and 1871 the numbers

employed in industry in the county multiplied about five times over, while for the same period there was only a negligible increase in employment in agriculture.

It was during the eighteenth century, when many of the developments we have outlined were in their early stages, that the needs of industry and trade led to the evolution of the country banker. In Yorkshire, just as in other parts of the country, banking was for many years a mere adjunct to some other principal trade, and, while the county was the home of a few important private banks of well-deserved repute, it suffered in common with the rest of England from the many weaknesses associated with private banking generally. Indeed, Yorkshire acquired the unenviable reputation of harbouring numerous irresponsible issuers of notes for very small amounts—an obvious means of exploiting the poorer members of the community. Adam Smith,<sup>(1)</sup> referring to “some of the paper currencies of Yorkshire”, mentions banknotes for so low a sum as sixpence, and scathingly condemns the “beggarly bankers” making such issues. In 1775 banknotes of smaller denomination than one pound were prohibited, although notes for one pound and upwards continued to be issued freely. The considerable area and marked diversity of development in Yorkshire provided a fruitful ground for a full extension of banking, and it was not long before every town boasted at least one and sometimes two or three local firms, almost always arising directly out of a trading partnership. Thus in 1774 John Shore, the son of a Sheffield factor,<sup>(2)</sup> established the bank of Parker, Shore and Co. Again, Clarke, Richardson and Hodgson (later known as Richardson, Holt and Co.) were drapers, wine merchants and mercers at Whitby, and in 1786 they added banking to their other occupations. Even earlier, in 1778, Thomas Peirson, also a draper of the same town, founded a banking firm later known as Frankland and Wilkinson. At Ripon the originators of a local varnish industry turned bankers in the early years of the nineteenth century under the title of Farrer, Williamson and Co., while the great banking firm of Backhouse, established at Darlington in 1774 with a Yorkshire branch at Thirsk, was at one

<sup>(1)</sup> *Wealth of Nations*, vol. I, page 288 (Everyman edition).

<sup>(2)</sup> At this period the “factors” in Sheffield were middlemen, largely in control of the market for cutlery, whose business was conducted in part upon a system of barter. Their warehouses were commonly filled with miscellaneous goods, usually in the nature of household necessities, received for distribution in exchange for cutlery wares.

time prominent in the textile industry. There are others of less certain derivation which sprang up in the early years of the next century, called into being by the restriction of cash payments since 1797 and the ever-increasing needs of growing industry. Harding and Co., of Bridlington and Driffield, was founded in 1802; Fletcher and Stubbs, of Boroughbridge, was established in or before 1813; Coates and Co., of Knaresborough, dated from the first years of the nineteenth century, as also did Perfect and Co., of Leeds and Pontefract; and it seems likely that all these were rooted in the trade and industry of their neighbourhoods. In 1816, again, John Rimington, in partnership with two members of the Younge family, all three representatives of local gentry, established the Sheffield bank of Rimingtons and Younges. An example of the swift increase of banking facilities is given in the small market town of Thirsk, where, in addition to the branch of Backhouse and Co., two local firms, Dresser and Co. and Britain and Co., were founded in this period to serve the needs of a population of little more than 3,000 people—seemingly an excessive development, even when allowance is made for the additional requirements of a local market.<sup>(1)</sup>

By the beginning of the nineteenth century as many as fifty private banks were recorded in the county of Yorkshire, and doubtless there were some very small establishments that eluded enumeration. Most of them issued their own notes, which passed current in the circumscribed areas where their names were known, and nearly all were bound up with the course of trade in their particular districts. Yorkshire, indeed, presented a striking example of the full exploitation of the methods of private banking, and the trading community was early accustomed to using and trusting local banknotes. So it was that the financial difficulties during the decade following upon Waterloo, which brought disaster to large numbers of private banks throughout the Kingdom, eventually wrought havoc among the unstable Yorkshire firms, especially in newly developed towns. The crisis of 1825 was felt with particular severity. In Huddersfield five banks out of six failed; the West Riding was gravely disturbed by the collapse of Wentworth, Chaloner and Rishworth, bankers of high

<sup>(1)</sup> John Harding (of Harding and Co.) stated before the Select Committee on Joint Stock Banking in 1836 that Driffield, a village of 2,500 inhabitants, possessed four banks, and that there was no possibility of success for all of them—a condition of affairs which, he alleged, was true of all the towns and many villages of the East Riding.

repute at Leeds, York, Barnsley, Bradford and Wakefield, and other failures were recorded in different parts of the county. Not only did the collapse bring losses to depositors, but because local banknotes were in such general use the blow to confidence evoked sharp withdrawals from the banks, while the circulating medium of the district suffered severe contraction. This in part explains why Yorkshire entered with vigour into the movement towards joint stock banking so soon as the necessary legislation had been passed. In the decade from 1826 as many as twenty new joint stock banks were registered in Yorkshire alone; among them were seven which, together with one founded a few years later, form the principal subject matter of this chapter. Their titles and dates of establishment are listed below, and it will be observed that the first two were among the earliest banking companies to be formed in England :—

Huddersfield Banking Company	...	...	1827
Bradford Banking Company	...	...	1827
York City and County Banking Company	...		1830
Barnsley Banking Company	...	...	1832
Hull Banking Company	...	...	1833
Yorkshire District Banking Company	...	...	1834
Sheffield and Hallamshire Bank	...	...	1836
Sheffield Union Banking Company	...	...	1843

Just over the borders of Yorkshire may be noted the Cumberland Union Banking Company, formed in 1829, and the Darlington District Joint Stock Banking Company, born two years later. These are typical of the numerous banking co-partnerships springing to life all over the country, and their stories are related because at one time or other, by the process of amalgamation, they united to form part of the present Yorkshire and northern counties connection of the Midland Bank.

The possibility of attracting large capital resources and widespread proprietary interests, together with profitable note circulations, presented an opportunity for the development of branch banking. Thus two types of bank were projected—the local joint stock bank confining its attentions to a particular town and its immediate neighbourhood, and the larger institution working upon a branch system and covering a relatively wide area. By far the more usual, as may be judged from the number of formations, was the bank confined to one

particular town, for, although the wording of early bank deeds of settlement shows that branch systems were often intended, in fact the circumstances surrounding the first few endeavours proved too strong for successful emergence from the trial period. The difficulties of transport and communication, the attitude of insularity maintained by many West Riding towns until the coming of the railway, and insufficient public confidence in enterprise from another town, all made it simpler and safer to form local banks. Not infrequently branches opened in the enthusiasm of a new venture were given up after brief experience. Thus the Huddersfield Banking Company originally had branches at Wakefield and Saddleworth,<sup>(1)</sup> but in 1832 the Wakefield Banking Company was formed, and the Huddersfield bank transferred its branch in that town to the new company in exchange for shares, which it shortly sold, while much the same procedure was followed in Saddleworth. It is significant here that the railway did not reach Huddersfield until 1848. Despite these early setbacks, however, the great future in store for branch banking, no less than the current difficulties, was foreshadowed in the experiences of three of the banks listed, the York City and County Banking Company, the Hull Banking Company, and the Yorkshire District Banking Company. Of these the last two embarked, immediately on foundation, upon the establishment of a widespread system of branches, and both paid a heavy price, expressed in business losses, for their ventures. The first managed to avoid the severest penalties, possibly because of a more modest scale of operations.

The preliminary announcements of these early banks are similar in form, and show clearly the influence of Thomas Joplin, who played an active part in the formation of several Yorkshire joint stock banks, notable among them being the Huddersfield Banking Company and the Bradford Banking Company.<sup>(2)</sup> The prospectuses refer to the success of joint stock banking in Scotland, and frequently withering comments are made on the weaknesses of private banks. Some of the earlier formations clearly set out to replace private banks that had collapsed in the crisis years.

<sup>(1)</sup> As elsewhere, difficulty was experienced in obtaining suitable managers for entirely new branches. One of the reasons for giving up the Saddleworth branch was "the difficulty in finding a proper person to replace" the manager, who had accepted a post in another bank.

<sup>(2)</sup> A number of references to Joplin and his services to these banks appear in the early minute books.

Thus the prospectus of the Huddersfield Banking Company, issued in March 1827, refers to the failure of five local banks, and the ensuing "deep and widely extended miseries". Because of these failures, the document states, "a vacuum has been caused which in all probability will be filled up by other establishments of a similar nature; equally subject to the same disasters and from which the same consequences may again arise unless a public company of a more solid description be formed in their place". The Bradford Banking Company, following at a distance of one month the formation of the Huddersfield bank, opened in premises formerly occupied by Wentworth and Company,<sup>(1)</sup> and appointed as their first manager Samuel Laycock, formerly manager for Wentworths at Bradford. Even the York City and County Bank, formed four years after the Wentworth failure, stated in the prospectus that it was established to fill the vacancy thus created. A more positive reason was given, however, in the Huddersfield prospectus, and one likely to appeal to the industrialists of the growing textile centre: "The additional resources . . . of a public banking company . . . will enable it to grant facilities which cannot be given by private partnerships". The paid-up capital of this pioneer institution was £100,000, a sum considerably larger than the initial capital of many of the early banks. Frequently the paid-up capital at the outset was small, usually about ten to fifteen per cent only of the nominal total, giving a sum often below £50,000. The Yorkshire District Banking Company was a notable exception, with its paid-up capital of £600,000.

Following shortly upon the Act of 1826, the Bank of England opened branches at Leeds and Hull, but despite this opposition and that of the established private bankers the joint stock banks of the county achieved early success. This was in some measure due to the enthusiasm with which the system was received generally, and the consequent selection of the directorate from men actively concerned in local industries and of known ability, repute and material resources. The directors of some banks regarded their office as a distinction rather than as a salaried post, accepting the responsibilities without payment in order to be of service to their towns. The directors of the Huddersfield Banking Company received no fees until as late as 1890, and in the records of the

<sup>(1)</sup> A year later a house was taken in Kirkgate for the bank. These premises were entirely re-built in 1856, and, with some alterations, they now constitute the Kirkgate, Bradford branch of the Midland Bank.

Bradford Banking Company there is no trace of remuneration until 1864. Most of those serving on the boards were engaged in the woollen, worsted or iron industries and other trades of the towns. Moreover, just as control in many of the principal undertakings in local industry habitually passed from one generation to another of the same family, so on bank directorates a strong family connection is traceable over the century.

There were many interesting men on these early boards. John Green Paley,<sup>(i)</sup> first chairman of the Bradford Banking Company, was part proprietor of the Bowling Iron Works, and in this capacity held a licence to issue notes as late as 1827. One of the toasts of Benjamin Haigh Allen, first chairman of the Huddersfield Banking Company,<sup>(ii)</sup> at a dinner given in January 1828 following the annual meeting of the bank, was: "The English Bankers, and may their efforts to resist the encroachments of the Bank of England prove successful." The first directorate<sup>(iii)</sup> of the York City and County Bank contains names from the partnership which preceded a famous firm of makers of confectionery, and men of importance in the building of railways. The first chairman of the Hull Banking Company was Thomas Holmes,<sup>(iv)</sup> the founder of a large leather-tanning firm. A last instance may be taken from the Yorkshire District Banking Company, for the list of early directors<sup>(v)</sup> contains the names of James Audus, a pioneer in railway development, several members of families prominent in the iron trade, and later George Leeman, of distinction in the history of railway finance as well as bank legislation.<sup>(v)</sup> As in other parts of the country, the Yorkshire joint stock banks usually appointed two "managing" or "special" directors, who were not actively concerned in industry and trade, and they alone were authorized to see customers' accounts and bills when necessary. A novel condition was imposed by the deed of settlement upon the directors of the Hull Banking Company—each was required

<sup>(i)</sup> With him were associated: Henry Leah, Benjamin Thompson, John and William Wood.

<sup>(ii)</sup> His co-directors were: Joseph Armitage, Joseph Walker, Joseph Brook, William Brooke, W. W. Battye and John Smith.

<sup>(iii)</sup> The directors were: Thomas Price, Henry Croft, Thomas Barstow, Thomas Laycock, Thomas Backhouse, Benjamin Horner and Robert Waller.

<sup>(iv)</sup> His co-directors were: John Wade, George Buckton, William North and John Hudson.

<sup>(v)</sup> The first directors were: Francis Marris, Isaac Spenser, Thomas Smith, James Gadsden, John Milner, William Vickers and William Rand. George Leeman, who was elected to the board in 1847, gave his name to the Act which effectually suppressed speculation in bank shares. See page 33.

by the deed to sign a statement that he was worth £5,000 after paying his just debts, and to re-affirm the declaration once a year.

The blaze of local patriotism in which many of the banks were established necessarily led to the maintenance of keen interest on the part of the townsmen in the affairs of the new institutions, which they regarded as peculiarly their own. Early meetings of shareholders at the principal inn of the town were fully attended, and criticism was freely uttered on matters of general concern. This keen personal interest is explained by the fact that the capital of the banks was usually quite small, and the number of proprietors sometimes less than one hundred, most of them living and working a few steps from their banks. It was the practice, moreover, to allot shares in such a way as to attract business. This the banks were well able to do, for in the enthusiasm for early formations shares were eagerly sought, and soon reached a premium. They were therefore granted to those applicants active in the trade and industry of the town, who might be expected to show a lively interest in their bank. Evidence of the closeness of the relationship between the bank and the local businesses is given in the reports of the Bradford Banking Company. Bradford was growing rapidly, and in 1831 an increase in the business of the bank necessitated an additional issue of capital, then standing at £20,000. The directors therefore gave notice that it was intended to issue a further 1,000 shares of £100, on which £30 was to be called up. A few days later, however, a number of the inhabitants of Bradford attended a meeting at the Sun Inn to discuss the proposal, and, deciding that the projected increase of capital was insufficient for the needs of the town, threatened to form a new bank unless their views were given attention. The directors thereupon decided to double the amount of new capital.

Among the benefits conferred by the new system was a general decrease in the cost of banking services. From the first, interest was allowed on all credit balances, a practice which had not held among private bankers, who also made frequent complaints of the fine rates charged by their competitors for various facilities.<sup>(1)</sup> Small accounts were not refused, and local

<sup>(1)</sup> Usually between two and three per cent was allowed upon credit balances and from four to five per cent charged on overdrafts and discounts. At a later stage a bone of contention was the practice of joint stock banks in making or accepting transfers of money between most large towns free of charge by mutual agreement, thus removing a considerable source of profit from private bankers, who hitherto had charged for such transactions. See page 251.



notes were usually exchanged free of charge. The hours of banking were made to accord with business requirements, and notes of convenient denomination issued. The newspapers of the time comment on the beneficial changes introduced. It appears from a Hull paper, for example, that the local banking company had moved in the directions indicated, and in addition had issued a note for the unusual amount of £20, payable at the London agents of the bank or at Hull, which had proved of great convenience to those wishing to remit substantial sums of money.

The early joint stock banks in Yorkshire, then, began a vigorous search for business in a manner that could not fail to commend them to those concerned in the trade and industry of their neighbourhood, and the policy brought a good response. The first two banks, at Huddersfield and Bradford, were cautiously feeling their way, for there was little or no experience to guide them, though the Huddersfield bank appointed as first manager a practised joint stock bank official from Scotland.<sup>(1)</sup> For this reason, among others, they confined their activities within the narrow field of their towns of origin, and did not press outwards by branch extension until late in life. Early endeavours of the Huddersfield Banking Company to place branches even in towns of its own area came to nothing. A last effort at this stage in its career was the opening of a branch at Barnsley in 1830, but this was abandoned two years later upon the formation of the Barnsley Banking Company.<sup>(2)</sup> Quite soon, however, more strenuous efforts were made by joint stock banks in Yorkshire to operate branch systems.

The earliest example, among the banks dealt with in this chapter, was the York City and County Bank. This undertaking began business at York in 1830, when the town possessed two private banks and one savings bank, but when the disturbance caused by the failure of Wentworths was still bitterly remembered. Just as the first Yorkshire joint stock banks drew upon Scottish experience, so this institution took full advantage of the pioneer work of its forerunners in other towns. It adopted the system of bookkeeping used by the Bradford Banking Company "as being the most simple and efficacious". Though operating with

<sup>(1)</sup> It is interesting to record that in the list of applications for the post of manager appears the name "J. W. Gilbert", which was struck out as "considered ineligible".

<sup>(2)</sup> See page 215.

a capital of but £22,000, the bank soon began to open branches. In the first year of life an office was opened at Malton, and the deed of settlement altered to permit the establishment of branches more than twenty-five miles from York, a limit inserted in the original document. A year later the failure of the firm of Scholfield, Clarkson and Clough, established as bankers at Howden and Selby early in the century, left a gap which the York City and County was not slow to fill. The offices of the private bank were taken over, and branches opened, Thomas Clough, a partner in the firm, being appointed agent at Howden. About this time, too, agencies were established at Scarborough and Goole. Then, also in 1833, the business of Fletcher, Stubbs and Stott, private bankers at Boroughbridge for many years, was absorbed. The purchase price of the old firm was thirty-five shares (of £100, with £10 paid up) in the York bank, together with a large loan to the partners at a special rate. It is probable that the decision of the firm to relinquish business was occasioned by the death of Thomas Dew, one of the partners, and it is not unlikely that the loan was required to pay out his interest to the executors of the estate. Four years later Farrer, Williamson and Co., bankers at Ripon and pioneers in the varnish trade of that town, were taken over, Mr. Farrer being appointed agent for the York bank in January 1838. From memoranda of the agreement it appears that the note circulation of the private firm amounted to about £5,000. Progress was maintained at the expense of private banking. In 1843 the firm of Richardson, Holt and Co., bankers at Pickering and Whitby from 1786, was purchased at a cost of £3,000, Christopher Richardson remaining as agent, while two years later the minutes record that Frankland and Wilkinson, bankers at Whitby since 1778, approached the York bank with a view to selling their business, the price of £600 being agreed upon. After fifteen years of life, therefore, the bank possessed eight offices and two agencies, mainly obtained by way of private banks and so bringing with them a business connection, note circulation and frequently a trained staff. The growing business necessitated the erection of new premises<sup>(1)</sup> in Parliament Street, but for thirty years thereafter the bank resisted the temptation to extend further afield. Not until the last quarter of the century was geographical

<sup>(1)</sup> Formerly the bank had been conducted in a house in Ousegate. The new premises, with some additions and alterations, are now the Parliament Street, York branch of the Midland Bank.

expansion resumed, but meanwhile, if the bank did not proceed as swiftly as some, it earned the reward of prudence in steadily rising prosperity, without any considerable setback. By 1845 the paid-up capital had reached £100,000, of which one-quarter had been credited as a "bonus" from surplus profits, the reserve was £27,000, the note circulation exceeded £90,000 and deposits stood at £688,000.

The next bank among those here considered to begin upon a branch system was the Hull Banking Company, which opened for business in 1833, though it did so only after considerable hesitation, which illustrates the uncertain legislative conditions of the time. The bank was first promoted in March 1833 as the Hull, East Riding and North Lincolnshire Banking Company, and by April of that year preliminary arrangements had been completed and the allotment of shares begun. Two months later these operations were entirely suspended "in consequence of the measures now before Parliament", and on June 17 a general meeting was held to "take into consideration whether under a view of the measures proposed by the government in relation to joint stock banks, it is desirable to proceed with this company". The meeting decided to dissolve the company and to return deposits to shareholders. The Parliamentary measures referred to were disturbing enough, for they contemplated requiring joint stock banks to become chartered at considerable expense and subject to many restrictions. The York City and County Bank endeavoured to organize a joint protest from the country banking companies against the measure, but, this failing, the bank separately memorialized the Government in strong terms. So general, though unorganized, was the opposition that the proposed legislation was abandoned for the time being,<sup>(1)</sup> and, the road now being clear, the Hull Banking Company was formed and opened for business in Silver Street<sup>(11)</sup> in December 1833.

Once established, the Hull Banking Company vigorously pressed a policy of establishing branches without awaiting special opportunities that might arise from the decline of private banking. During the first year branches were opened at Beverley, Brigg, Goole, Gainsborough, Grimsby and Louth, with agencies at

<sup>(1)</sup> Until 1844. See chapter I.

<sup>(11)</sup> In 1869 the premises were entirely rebuilt and considerably extended. This new building, with some additions, now forms the Silver Street, Hull branch of the Midland Bank.

Howden, Retford and Market Rasen, and a year later the bank extended to Lincoln, South Cave and Market Weighton. It will be seen that a number of branches were placed over the Humber in the neighbouring county of Lincolnshire—an interesting reflection of the relative convenience at that time of transport by water and land—and this both aroused the active antagonism of a recently-formed joint stock bank in Lincoln<sup>(1)</sup> and also proved a source of weakness because of the distance from Hull. The consequences of petty disputes among the Lincolnshire branches of the respective banks on such matters as the receiving of one bank's notes by the other could not fail to shake public confidence in both banks alike, and the Hull bank, in spite of its numerous branches, found that business did not grow quickly. Indeed, even the modest capital of £42,000, when augmented by a note circulation exceeding £50,000 and deposits of £90,000, provided a total of resources that could not be fully employed within its own area—possibly because the prime concern of the district was with agriculture. Thus during 1836 one-third of the paid-up capital, then £63,000, was returned to the shareholders, and at a later date the bank was constrained to take an opportunity of lending large sums in Leeds, an extension of activities that led directly to disaster.

In 1838 the Hull bank was arranging to discontinue some of the unprofitable weekly agencies, but a year later a sudden setback deprived the bank of most of its branches at one blow. During December 1839 it was announced that a large Leeds firm had failed, owing the Hull bank over £40,000, a sum equal to the whole of the paid-up capital and constituting about one-sixth of the total resources. True to the spirit of the times, the news no sooner became public than a run began, directed first upon the head office at Hull and later, as the news spread, on remote branches. Officers were despatched to London and Leeds carrying bills for large sums to be converted into gold and Bank of England notes: it is worth remarking that, although the London agents were of opinion that the Hull bank was well managed and ultimately sound, there was no suggestion of approaching the Bank of England, either locally or in London, for assistance. Acting upon the advice of the general manager "to take a firm tone, to appear master of the business, and not

<sup>(1)</sup> The Lincoln and Lindsey Banking Company, see chapter VIII.

needlessly to run about as if . . . frightened to death", the branch managers met the rising demand for cash by note-holders and depositors during the early days of January 1840, while the directors endeavoured to find a purchaser of the bank as the best way out of a desperate situation. Happily, the messenger from London, travelling by rail to Derby and thence by post-chaise to Hull, arrived in time with sufficient cash to replenish the coffers of the bank. For a time there was anxiety as to the position at branches, since all could not be supplied with large reserves and communication with Hull took several hours, but they managed to survive without closing their doors. Even at Grimsby, where the run was particularly heavy and all the more dangerous because of the travelling distance from Hull, the flow of money turned in favour of the bank just when suspension was imminent.

The bank, then, largely because of timely assistance from London, came through a severe trial which can be measured by observing that the note circulation had fallen from over £50,000 to about £16,000. The negotiations for amalgamation were unsuccessful, and it was decided to carry on the bank, calling upon the unfortunate shareholders for additional capital. As part of the general reorganization, most of the branches were closed or sold, until instead of thirteen there remained but three, at Barton, Beverley and Grimsby, in addition to the parent office at Hull. Thus reduced in size, the bank began upon the task of reconstructing a business sadly depleted by the course of events. Although the Hull bank recovered remarkably quickly from the setback, it did not again attempt to operate an extensive branch system.

So far this chapter has outlined the circumstances in which there were founded in Yorkshire, first joint stock banks confined to a single town, and shortly afterwards banks beginning upon a scheme of branch extension. None of those discussed had as yet made any attempt to cover more than a limited part of the county, for even the York City and County Bank had no branch in the industrial West Riding. But in May 1834 there was launched an ambitious project for the establishment of a true branch system throughout Yorkshire. The Yorkshire District Banking Company was to be formed, in the words of the prospectus, with the intention that it should mark "the first full application of the

District plan of banking to this affluent and populous County". The head office was at Leeds,<sup>(1)</sup> the business centre of the West Riding and itself possessed of highly developed industries both in textiles and iron. With a population exceeding 120,000 it was the largest town in Yorkshire, and stood in close proximity to a number of other important centres. Banking in such a place was likely to demand far greater resources, both in skill and available funds, than was necessary in the North and East Ridings, more particularly if a branch system were contemplated. Accordingly the paid-up capital of £600,000 was much the highest among the banks here discussed, and was also among the largest in the country. Though quite different in size and scope from the York City and County, the Yorkshire District also seized upon opportunities presented by the decline of private banking. Almost immediately the business of Perfect and Co., bankers of Leeds and Pontefract, was taken over, while the weakness of private banking is shown by offers for amalgamation received from numerous small firms. In 1835 Dresser and Co., of Thirsk, a firm of some fifteen years standing, together with Britain and Co., of the same town, came into the undertaking, thus reducing the inordinately large number of banks in that town. The purchase of the Knaresborough firm of Coates, Meek and Carter, established before 1804, helped to spread the range of operations. The bank now proceeded to employ its large capital in actively pressing forward the opening of branches, until after only three years it possessed twenty branches, in towns as far apart as Richmond, Sheffield, Halifax and Hull.

The bank gave every appearance of success, and weathered with no apparent difficulty the storm of 1839 that so gravely injured the Hull Banking Company. But all was not as well as it seemed. A year later it was admitted that losses exceeding £140,000 had arisen through the deception of the general manager. This was bad enough in itself, though it might well have been no vital matter to a bank of the size of the Yorkshire District. But worse was in store. The early 'forties were bad years in Yorkshire banking. In 1842 the failure of the Yorkshire Agricultural and Commercial Bank, an institution with six branches, established in the optimistic year of 1836, brought

<sup>(1)</sup> The premises were those formerly used by Perfect and Co., but in 1836 a new building was erected at "West Bar". This site forms the nucleus of that now occupied by the City Square, Leeds branch of the Midland Bank.

losses estimated at over £250,000.<sup>(1)</sup> The prestige of other banks was affected, and the Yorkshire District Bank, which had only just reduced the amount paid up on its shares from £15 to £10 to meet the losses of 1840, found its position far from happy. Despite a public assertion by the board that "the Bank has never been in so safe a position for many years as during the last six months", the directors recommended the appointment by the shareholders of a committee of investigation. The committee included the auditor and George Leeman, at that time a rising lawyer and Clerk of the Peace for the East Riding.

The report of the committee, issued in 1843, revealed a disastrous state of affairs, arising out of mismanagement almost from the first day of business. It pointed out that profits for the first two years of the bank's life were not legitimate business gains at all, but consisted largely of premiums on shares sold. Some of the advances, extended to secure high profits, were exceedingly ill-judged and imprudent. An idea of the magnitude of these transactions is given by the total for advances and bills—by 1839 it had reached nearly £2 millions. Truly the investigators had ground for speaking of the "misplaced confidence in their manager which enabled parties to obtain advances for most incredible amounts". The total loss was estimated at £507,000, of which nearly £400,000 arose at Leeds. It will be seen that this left very little of the paid-up capital of £612,000. Nevertheless, the committee was of opinion "that with the exercise of ordinary prudence the Yorkshire District Bank would yield a very handsome profit to its proprietary".

The immediate cause of the calamity was undoubtedly gross mismanagement, but in justice the difficulties of the period should be borne in mind. Accounting methods were still elementary. At one branch, the committee reported, "the balance of cash appears to be made in a singular manner; the excess when any comes to hand is placed in a bag—the accumulation in that bag from the commencement of the branch is £3 15s. *od.*; the deficiency is accounted for on paper, the amount of such deficiency to this time is £15, being a total loss upon the cash of £11 5s. *od.*". At another branch "they were much surprised that there was no cash balance book . . . the cash was balanced on scraps of paper

<sup>(1)</sup> The Whitby branch of the Yorkshire Agricultural and Commercial Bank was taken over by the York City and County Bank. See also page 216 for an account of a serious bank failure in Sheffield at this time.

not more than twice or thrice a week". Another element of danger lay in the common practice of making advances to shareholders on the security of their holdings of the bank's shares. Finally, the directors of the Yorkshire District Bank seem to have constituted a far from harmonious board. During the difficulties a letter from one of them described the state of affairs as one in which "the board-meetings are conducted with an utter want of propriety or decency . . . arising in a great measure from Mr. — occupying more than one-half the time of each meeting by low abuses and conduct highly offensive to every member of the board".

These sources of weakness affected particularly banks with extensive branch systems, and until the second half of the century such banks were often faced with difficulties which did not trouble single-office banks. The York City and County Bank, with its eight branches all concerned with agriculture and all close at hand, was wise enough to acquire experience before further extension. It is, nevertheless, significant that the heaviest losses of the Yorkshire District Bank occurred at Leeds, the centre of a rapidly growing district, deeply involved in wool and iron, and also the centre of the bank. It seems that the complex accounting of a branch system to some extent hid weaknesses in the position of the bank until it was too late to remedy them. Following the recommendations of the committee of investigation, the bank was liquidated and a new institution, the Yorkshire Banking Company, formed to take over "the portion of the business which is good and profitable". No loss fell upon note-holders or depositors, but three-quarters of the share capital was extinguished, and business was resumed under the new title on July 6, 1843 with a fresh directorate, and following a rule of the strictest economy.<sup>(1)</sup> Although the paid-up capital of the new bank stood at only £150,000, a bare quarter of the original sum, the branch system was continued. Thirteen branches and twelve agencies, together with their staffs, were retained, but among the few offices sold was that at Sheffield, which formed the nucleus of a new joint stock bank.<sup>(11)</sup> After this sobering experience the bank observed a degree of caution that restored lost prestige in a remarkably short time—the first accounts of the new bank, dated December

<sup>(1)</sup> A directors' minute of 1843 requests the manager "to get a second-hand newspaper if he can, in place of the *Times* now taken in".

<sup>(11)</sup> The Sheffield Union Banking Company, see page 216.



1844, show deposits exceeding £600,000 and a note circulation of over £100,000.

These experiences confirmed many of the contemporary formations in their policy of operating single-office banks, or at most strictly localized representations. When the Huddersfield Banking Company withdrew its Barnsley branch a local joint stock bank was established, the Barnsley Banking Company, which opened for business in February 1832. With a capital of £25,000 and a board drawn from the business men of the town,<sup>(1)</sup> the bank proceeded to supply banking facilities confined strictly to Barnsley. Among the first subscribers were many representatives of linen manufacture, then an important Yorkshire industry, and several colliery proprietors. So also in Sheffield a new joint stock bank was founded that began without branches and made no great effort to establish them. This was the Sheffield and Hallamshire Bank, formed early in 1836 partly by inspiration from Huddersfield and Liverpool.<sup>(2)</sup> The cutlery trade of the town still clung to the small unit of production, known as the "little mester" system, whereby cutlery was made in small workshops scattered all over the town and each employing a group of skilled craftsmen. As in other industries, new methods and machines were supplanting hand labour, and even in Sheffield the organization of the trade, though followed for centuries, was slowly giving way before improvements in the technique of manufacture. Nevertheless, small-scale industry was still a major element in the business of the town, and the Sheffield and Hallamshire Bank set out to encourage small accounts. A manager was found from the staff of another local joint stock bank, and with a paid-up capital of £124,000 the Sheffield and Hallamshire Bank began business in Church Street<sup>(3)</sup> on May 23, 1836.

Three weeks later an old-established private bank in Sheffield adopted joint stock form as the Sheffield and Rotherham Bank, so that the Sheffield and Hallamshire was brought into

<sup>(1)</sup> The first directors were: John Micklethwaite, John Thornely, Charles Tee, Joseph Speight, George Pitt, William Dandison and George A. Helleley.

<sup>(2)</sup> The bank was promoted by a committee of twenty-two, of which fourteen members were from Huddersfield, and applications for shares were directed to be paid to the Huddersfield Banking Company. The first directors were: Samuel Parker, William Ibbotson, Charles Appleby, Samuel Tinker and Ellis Eyre, all of Sheffield; Joseph Walker and John Brooke, of Huddersfield; and Thomas Sands, of Liverpool.

<sup>(3)</sup> The site is now occupied by the Church Street, Sheffield branch of the Midland Bank.

competition with two<sup>(1)</sup> similarly constituted rivals, each drawing upon longer historical associations. Nevertheless, it slowly acquired an appreciable business, though two years after opening £2 per share was returned to shareholders, reducing the paid-up capital to £75,000, as the bank could find no use for a larger sum. It was not long before yet another banking venture was launched in the town. This was the Borough Bank of Sheffield, which opened in September 1839. Within two years branches were established at Retford and Worksop, and thereupon the title of the bank was changed to Sheffield and Retford Bank. It was at this period that local banking received a severe shock. In January 1843 the long-established private bank of Parker, Shore and Co. suspended payment with liabilities exceeding £500,000. Though it was soon known that the loss would not be heavy, there was considerable apprehension lest a run should develop on other banks of the town. The local newspaper<sup>(2)</sup> contained a declaration of confidence in the remaining Sheffield banks and a pledge to accept their notes, signed by over three hundred people who were present "at a numerous and highly respectable meeting of the merchants, manufacturers and other inhabitants of Sheffield held . . . at Cutlers' Hall". No sooner had the town begun to recover from this setback than, in May of the same year, there came the collapse of the Yorkshire District Bank, which operated a branch in Sheffield.

This sudden reduction of banking facilities in the town presented an opportunity for further development. Almost immediately a new joint stock bank was formed, the Sheffield Union Banking Company,<sup>(3)</sup> which took over the good business of the Sheffield branch of the Yorkshire District Bank, and began with a capital of only £16,000. At first progress was slow, but after three years the business was considerably extended. The recently-formed Sheffield and Retford Bank had received an accession of strength as a result of the events of 1843, for in that year the last private bank in Sheffield, the firm of Rimingtons and Younges, made overtures for absorption which were welcomed by the joint stock bank. Despite this valuable acquisition in business, the Sheffield and Retford Bank

<sup>(1)</sup> The first was the Sheffield Banking Company, established in 1831 and absorbed by the National Provincial Bank in 1919.

<sup>(2)</sup> *Sheffield Iris*, January 21, 1843.

<sup>(3)</sup> The first directors were: William Smith, Richard Sorby, John Hall and Mark Maughan. After six months' operation an important addition was made, Edward Vickers joining the board.

was becoming heavily involved in large loans to a few debtors, notably railway companies, and found its position more than a little strained. Early in 1846 the directors were obliged to ask other banks of the town to take over a large railway account that required a loan beyond the available resources of the bank, and efforts were made to recall some of the outstanding loans. The failure of a large bank in Leeds, with which the Sheffield and Retford was closely connected, dealt a final blow. At this time the Sheffield Union Bank saw in the difficulties of its rival an opportunity for extension. When approached by the directors of the Sheffield and Retford Bank with a view to amalgamation, the Union agreed to purchase the Retford portion of the business. A few months later, after a life of only seven years, the distressed bank ceased business, and, so far as can be seen, the good accounts went into the hands of the Sheffield Union Bank. Meanwhile the affairs of Parker, Shore and Co. had been brought into some degree of order, and it was plain that the bank would never reopen. The Sheffield Union Bank took over the premises and, there are good grounds for believing, a considerable proportion of the old bank's business as well.

Under the Charter Act of 1844 the banks in Yorkshire, both joint stock and private, received a total authorized note issue of nearly £1,400,000, and of this sum over one-quarter was allocated to the banks here described, in the following amounts:—

YORKSHIRE BANKS :—				Authorized issue
				£
Barnsley Banking Company	...	...	...	9,563
Bradford Banking Company	...	...	...	49,292
Huddersfield Banking Company	...	...	...	37,354
Hull Banking Company	...	...	...	29,333
Sheffield and Hallamshire Bank	...	...	...	23,524
Yorkshire Banking Company	...	...	...	122,532
York City and County Banking Company	...	...	...	94,695
				366,293
Burlington and Driffield Bank (Harding and Co.)				12,745
				<u>£379,038</u>

NEIGHBOURING BANKS :—

Cumberland Union Banking Company	...	...	35,395
Darlington District Joint Stock Banking Company			26,134

The Sheffield Union Bank was one of those which, by agreement with the Bank of England, did not issue its own notes.

The table gives some indication of the achievements of the joint stock banking system in Yorkshire. The high totals accorded to the Yorkshire Banking Company and the York City and County Bank are explained by the extended scope of their operations, and the figure for the Yorkshire Banking Company reflects the large connection re-established shortly after reorganization. More remarkable is the progress recorded by the two earliest banks, at Huddersfield and Bradford. Confined as they were to their towns of origin, they possessed particularly high note circulations, recording at one and the same time the increasing trade and industry of both centres and the prominent part played in this progress by the local joint stock banks. Neither had suffered a setback of any importance since the day of opening, and both had paid dividends of ten per cent and more for several years, besides accumulating substantial reserve funds. The Hull Banking Company, too, was now making good progress, in spite of the strength of private banking in Hull, and the Barnsley bank, though on a relatively small scale, sturdily pursued a course of useful independence. The Sheffield and Hallamshire made a good showing for its comparatively short life, and altogether it is clear that in Yorkshire the joint stock principle in banking had passed through its first years of trial and was now well on the road to full application.

The unduly rapid railway building which led to the crisis of 1847 could hardly have failed to embroil the Yorkshire banks. George Hudson, the "Railway King", was working on his grandiose schemes for railway amalgamation in York, and, in using the city as his centre, was to some extent restoring the commercial activity which had long declined there. Moreover, many of the directors of both the Yorkshire Banking Company and the York City and County Bank were also members of railway boards. The way the wind was blowing may be seen in the following extract from the minute books of the York City and County Bank early in 1846:—

"In consequence of the very great increase of business by the numerous railway transactions at York during the last year, the directors came to the resolution to present the following gratuities:— . . ." (List of gratuities to staff follows.)

During the following year several of the banks were endeavouring to reduce the proportion of their resources lent to railways or on

the security of railway stocks, for bank failures in other parts of the country were endangering the prestige of banking generally. The Sheffield banks were seriously affected by the strained position of the commercial world. The Union, fortunately placed by existing arrangements, was able to call upon the assistance of the Bank of England, but the Sheffield and Hallamshire was driven to seek assistance from its London agents. So also most of the banks were obliged to re-discount extensively with their London agents in order to obtain liquid funds, the York City and County and the Yorkshire Banking Company leaning particularly heavily upon outside resources. Nevertheless, despite the intensity of the crisis, the banks discussed revealed the strength they had acquired; none was forced into liquidation, and in two years' time all had recovered from their losses and were once more set on a successful course.

With the growing industrial importance of the West Riding it was inevitable that the local banks should become vitally interested in national and even international affairs. In early years this development is shown by frequent references in bank records to credits and financial arrangements made directly with foreign banks by local institutions, principally on behalf of the wool and iron trades. The extent of the movement is difficult to judge, though it is interesting to observe that the intervention of London banks in such arrangements was not indispensable. A reflection of the trend is given in the following extract from the chairman's speech delivered at the shareholders' meeting of the Bradford Banking Company in 1857:—

“ We cannot forbear observing upon the high price which raw materials of wool, cotton and silk have attained, which leads us to the reluctant conclusion that the consumption of these articles has overstepped the growth of them, and that according to the laws of supply and demand, a consequent enhancement of price has obtained. . . . Great stress has been laid by many thinking men upon the influence which the influx of Californian and Australian gold has had and will continue to have upon real and personal property in enhancing the monied value. This we apprehend has been much over-estimated . . . the amount, large though it be, is but very small when compared with the immense sum of Bills of Exchange which acts as its substitute.”

Evidently the practice among bank chairmen of delivering disquisitions on monetary affairs and theories is not quite so new as is commonly supposed. The Sheffield and Hallamshire Bank report too called attention to the effect on prices of the increasing supplies of gold. It should be remembered that Bradford was at this time becoming a world centre for the supply of wool and worsted, and the endeavour to link world conditions with the affairs of the West Riding town is natural. By 1864 the directors of the Bradford bank had withdrawn in part from their expressed beliefs, for they then reported :—

“ During the past few years the money price of merchandise has been enhanced fully one-third, consequently the trade requires one-third more money to carry it on, nor do we see any prospect of an amelioration to this state of things.”

Thus even at this period the “ quantity theory of money ” had its converts among those closely concerned with financial and industrial affairs.

The early 'fifties had been years of growth and prosperity for the banks, and there were frequent references to flourishing trade. The Yorkshire banks were therefore in a strong position to withstand the crisis of 1857, and such losses as were encountered did not greatly disturb their general progress. There was one exception, which illustrates current tendencies with special clarity. Some of the Sheffield firms were now becoming large units of production, and leader among them was Naylor, Vickers and Co. The Sheffield Union Bank, although the smallest of the Sheffield banks, had the privilege of conducting the account of this powerful undertaking. For some years prior to the crisis an unduly large proportion of the bank's funds was utilized by this one firm and its connected institutions, until in the early 'fifties it frequently happened that more than the whole of the capital of the bank was thus employed, and this notwithstanding the fact that by 1856 the original paid-up capital had been multiplied five times over to reach £82,000, of which £37,000 had been credited by way of “ bonus ” transfers from the surplus fund. During the crisis year the bank was obliged to lean heavily upon its London agents, for Naylor, Vickers, seriously affected through their American house by the crisis in that country, were requiring a maximum of assistance.

This was the position when, in November 1857, Naylor, Vickers suspended payment. It was a failure that reacted immediately

upon the local bank, for it was known to be heavily involved, and had in fact advanced more than £60,000 to the firm. It applied immediately to the Bank of England for assistance, transferring securities deposited by its debtors as cover for loans—an indication of the closer co-operation of the central bank with non-note-issuing commercial banks. In addition, the directors supported their bank by loans exceeding £30,000 from personal resources. By these means the local bank survived an extremely dangerous situation; and, thanks to the inherently sound position of Naylor, Vickers, no considerable loss resulted. Within three months the outstanding indebtedness had been reduced by one-half and the bank delivered from domination by this one firm, though subsequent events were to show that the lesson had not been fully learnt.

Trade recovered rapidly from the events of 1857, and the annual reports of the Yorkshire banks soon began to refer once again to prosperous conditions. The wool trade in particular was now developing to the full the use of machinery and factory production, and receiving a marked stimulus from external sources. Quite apart from the buoyancy of prices, there were special causes bringing prosperous conditions to the wool industry. In 1860 the Cobden Treaty lowered the duties on British woollens entering France, and in the following five years the American civil war, by abruptly terminating the supply of raw cotton and so bringing distress to Lancashire, set up a greatly increased demand for wool products. The home supply of raw wool fell far behind the expanded needs of industry, and imports came to provide the bulk of the raw material. Most of the large increase in the production of wool manufactures was centred in the West Riding, and the local banks were bound up with the growth of trade. The Bradford, Huddersfield and Yorkshire banking companies all added to their capitals during the decade following 1858, and all experienced considerable expansion of business, particularly in financing by way of bills of exchange. The Huddersfield bank at long last modified the policy of remaining strictly confined to its town of origin. A branch had been opened at Dewsbury in 1841, but in 1863 two more were established at, in the words of the directors, "two rapidly rising towns", Batley and Heckmondwike.

The new demands of industry gave rise to new banks, an interesting example being that established at Leeds by John James

Cousins<sup>(i)</sup> in 1860. Its founder was at the outset possessed of a capital of only £8,000, and the office was so small that it was usual for any second customer to wait outside. The firm became Cousins, Allen and Co., and carried on a business which consisted largely of bill-discounting, in accordance with the growing practice of local trade. How different this was from general banking is to be seen by the following extract from an advertisement in the *Leeds Mercury*<sup>(ii)</sup> :—

“ Cousins, Allen & Co., bankers, Leeds. As this bank has been established solely for the purpose of supplying firms and individuals of thoroughly independent position with financial facilities that did not previously exist in the provinces,<sup>(iii)</sup> no accounts will be opened requiring overdraft or accommodation.”

The firm took advantage of newly-available facilities to register in 1866 as a limited company under the title Exchange and Discount Bank Limited, with a nominal capital of £200,000, Cousins remaining as principal and holding two-thirds of the shares.<sup>(iv)</sup> The bank, small as it was, opened branches in Bradford and Hull and was launched on a successful, if somewhat narrow, career. Another instance of late foundations is provided by the Leeds and County Bank Limited,<sup>(v)</sup> formed in 1862, which grew out of an institution established a year earlier under the name of the Joint Stock Banking Company (of Pontefract, Wakefield and Goole). Thus beginning well on in the century, the bank was able to profit by the pioneer experience of earlier institutions and to benefit from improved communications, so that it soon added to the head office in Park Row<sup>(vi)</sup> a few branches in the immediate neighbourhood of Leeds.

The upward swing of economic activity was accompanied by dangerous forms of financing, particularly in the exploitation of the use of accommodation bills. In 1864 a joint stock bank in

<sup>(i)</sup> Cousins was a west country man who, born in 1823, enjoyed a varied career. After three years' service in a Bristol bank he left to become a commercial traveller. He then turned his attention to the woollen trade, and in a few years was a partner in the firm of Littles, Cousins and Leach, wool merchants of Leeds. With this firm he remained until the establishment of his bank.

<sup>(ii)</sup> February 2, 1865.

<sup>(iii)</sup> The extravagance of this statement will be observed.

<sup>(iv)</sup> His co-directors were: Hammond Allen, Emmanuel Bradley, Thomas Dawson, David Little and D. W. McCarthy.

<sup>(v)</sup> The first directors were: Isaac Burkill, Joseph Cliff, Thomas Coulson, Thomas Willington George, Roger Hurst, Edward Irwin, Richard Moxon, Obadiah Nussey and William Peel.

<sup>(vi)</sup> Now the Park Row, Leeds branch of the Midland Bank.



Leeds failed, largely because re-discounting had been carried to inordinate lengths, and some of the local banks prepared for panic—a wise precaution on the part of Cousins, Allen and Co., who, having discounted many bills on behalf of the failed bank, were among the largest creditors. The position of the firm was gravely imperilled by an injudicious statement in a leading newspaper<sup>(1)</sup> that its failure was to be expected, a comment that brought creditors clamouring at the firm's doors for immediate payment. On the authority of Cousins himself, within three weeks only one account remained with a credit balance, and that was for £800 in the name of a personal friend of the founder. Nevertheless the firm, largely because of the assistance rendered by its London agents, was able to meet every demand, and thus to restore such confidence that after a few months all the old connection had returned and many new customers had been added. Fortunately, the incident was exceptional and there was no general loss of confidence; with other banks the expected call for additional cash did not arise. An interesting sequel was a declaration by the directors of the Yorkshire Banking Company that in their bank "no such transactions [as re-discounts] are known; the bills received . . . remain in the hands of the bank until they arrive at maturity"; while the Barnsley bank thought it wise to appoint a London firm of accountants to audit the books. At Hull a condition of general prosperity was modified by the swift decline of the local cotton industry, but this was a minor obstacle to the progress of the port, and the Hull Banking Company, though interested in the cotton mill and a creditor of a Leeds bank which had failed, enjoyed a profitable period of steady expansion.

The underlying increase in trade was proceeding steadily, and perhaps for this reason the crisis of 1866 was not felt with any severity in the West Riding, in spite of the failure of the English Joint Stock Bank, which had some Yorkshire branches. The Yorkshire Banking Company, for all its numerous branches, when requested by the London agents to "be as light with us as you conveniently can", was able to reply that "this and the surrounding locality is perfectly quiet", while the Bradford bank reported of the crisis that "in this district its evil effects have been less severe than could reasonably have been expected". At Sheffield, the two banks of this story again met with different

<sup>(1)</sup> *The Times*, September 22, 1864. See also reprint of speech of J. J. Cousins at amalgamation meeting, May 16, 1890.

fortunes. The Sheffield and Hallamshire was quite undisturbed by the panic, but the Sheffield Union once more narrowly avoided disaster. At the time of the Overend collapse the Union bank was lending large sums to three big works, one of which was on the brink of bankruptcy. The crisis brought this company to failure and involved the Union bank in considerable loss at a time when external pressure was at its height. Again the bank drew upon its London agents for assistance, and again the directors helped the bank by making personal loans. This time the difficulty passed off with no more serious result than a temporary fall in the market price of the bank's shares, while the loss in the local industry was met by drawing upon internal reserves and making a slight reduction in the rate of dividend.

During these years of active trade the Huddersfield Banking Company was indirectly concerned in a movement which greatly increased the spread of the banking habit to the less wealthy members of the community, both in England and elsewhere. This arose from the far-sighted energy of Charles William Sikes, a member of the staff of the bank, who became its general manager in 1868. The Huddersfield Banking Company had always looked with favour upon small accounts, partly because on its formation it had drawn heavily upon Scottish experience and practice; and no doubt in his early business life Sikes had seen the possibilities and social benefits inherent in this type of business. In 1850 he contributed a letter to the *Leeds Mercury* suggesting the formation of savings banks in connection with mechanics' institutes, an idea that was adopted and proved successful. Next he published a pamphlet entitled "Good Times, or the Savings Bank and the Fireside", of which forty thousand copies were sold. But his greatest achievement lay in the establishment of the Post Office Savings Bank. Following upon letters to the Chancellor of the Exchequer and numerous consultations, the bill authorizing the formation of this great thrift institution was passed in 1860, and Sikes opened the first account at Huddersfield in that year.<sup>(1)</sup>

Sikes, however, was by no means alone in his endeavours, for William Wilberforce Morrell, general manager of the York City and County Bank from 1873 to 1904, also formed a savings bank in his own city. Moreover, in 1859 Colonel Edward Akroyd, of Halifax, began upon the scheme which developed into the Yorkshire

<sup>(1)</sup> Sikes was knighted in 1881 in recognition of his services in establishing the Post Office Savings Bank.

Penny Bank, referring in his later pamphlet to the success of the savings banks started by Sikes and Morrell. The Yorkshire Penny Bank became a company limited by guarantee, and grew steadily, adopting novel extensions such as special facilities, introduced in 1874, for saving by school children. For many years the institution enjoyed a successful career and contributed considerably to the spread of the banking habit, a service in no way diminished by a combination of circumstances that obliged the bank to seek the aid and protection of the commercial banks early in the next century.<sup>(1)</sup>

It was during the 'seventies that the second group of Yorkshire's major industries experienced remarkable expansion, for this was the decade in which a general change-over from iron to steel began to take effect in many sections of industrial activity. As a result of a number of far-reaching inventions, the cost of production of steel had been greatly reduced until it was now rapidly supplanting iron as the principal metal used in the construction of all kinds of machinery. Not until the late 'fifties did Bessemer make known his revolutionary process for steel making, that lifted the industry out of the old, expensive small-scale crucible method of production. In the next ten years Siemens' open-hearth process added considerably to the possibilities of successful large-scale steel production, and the annual output began to increase rapidly. Finally, the Gilchrist-Thomas basic process was evolved in 1879. This invention made possible the use of ore containing phosphorus, a property that had until this time rendered valueless approximately two-thirds of the iron ore reserves in Great Britain. In other chapters the effects of these discoveries upon the development of new centres of steel production have been indicated;<sup>(2)</sup> here must be noted the sweeping changes that occurred also in Yorkshire.

The new methods of production were rapidly developed in Sheffield, and encouraged the growth of a much larger firm as the representative unit of steel production. From its earliest stages the resources of the local banks were called upon, for in 1858 the books of the Sheffield and Hallamshire Bank record an historic minute: "Henry Bessemer, Robert Longsdon, William Galloway, John Galloway and William Daniel Allen, trading as Henry

<sup>(1)</sup> See page 237.

<sup>(2)</sup> See chapter IV for the application of the Bessemer process and its effect on the hematite of Cumberland; and chapter II for changes in the iron centres of the black country.

Bessemer and Company, steel manufacturers, Carlisle Street, opened an account on [November 20]". During the next twenty years the deposits of the bank doubled, amounting to more than £600,000, and in the 'seventies there were many references to "exceptionally large" business. A similar rate and amount of expansion was to be seen in the figures for the Sheffield Union Bank, and in addition this bank was re-discounting local bills in London for very considerable amounts—the total was regularly over £100,000, and often nearer to £250,000.

Still more striking was the development in the north of the county, seen perhaps most clearly in the rise of Middlesbrough as a steel centre. Until 1831 it was a village of two or three hundred inhabitants, but the application of new methods of steel production brought about a swift increase in population, which by 1881 had surpassed 50,000, to double itself within the succeeding twenty years. The expansion could not fail to affect the banks of the neighbourhood. The Yorkshire Banking Company, for example, granted a loan of £26,000 in 1872<sup>(1)</sup> specifically to "institute the Bessemer process", and seven years later the directors made the following interesting statement in their annual report to shareholders:—

"The directors have not failed to watch with vigilance the experiments set on foot for making steel out of Cleveland Iron Stone, the perfectly successful issue of which, and the prospects of Middlesbrough becoming the future seat of the Steel Trade in the North Eastern District of England have induced the directors . . . experimentally to work the stone, and in furtherance of that object to put three out of six furnaces in blast."

It may well be asked how it came about that a bank was taking a direct and enterprising interest in industry in this unusual manner. The action was one in which the York City and County Bank was also concerned. Both banks had opened branches in Middlesbrough, and by the early 'seventies the York City and County Bank was lending considerable amounts to the most important local firm. Evidently its commitments were too heavy for the peace of mind of the directors, and in 1875 an

<sup>(1)</sup> A pioneer steel plant in the north of England was opened in Middlesbrough in 1875, for, although Bessemer discovered his process in 1855, several years elapsed before its general application. It began by using imported ore, but in 1879, with the adoption of the Gilchrist-Thomas process, local ore came to form the basis of a vast expansion.

agreement was arrived at with the Yorkshire Banking Company whereby combined advances were made to the rising industry of the town. Two or three years later a heavy failure forced the two banks into the measure indicated in the quotation, and a guide to the extent of their participation in the steel industry of Middlesbrough is given by the fact that the sum involved amounted to approximately £250,000. For three years the banks appear to have operated the steel works with some success; but doubtless they were relieved when a large company purchased the whole of the plant.

The incident suggests the extent of the depression which descended on the iron producing centres as the use of steel became more general, and the banks, which had moved so closely in support of expansion in trade, were also involved in the decline, with its numerous failures in trade and manufacture. In 1877 the York City and County Bank applied over £100,000 to meet bad debts, and the Yorkshire Banking Company similarly transferred large sums from reserves. Both made frequent references to depression in trade after 1875, though the Yorkshire Banking Company had a special additional cause for complaint. The manager at Pontefract operated an extensive fraud, robbing the bank of about £40,000 before discovery in 1876—a heavy burden when added to the large amount absorbed in semi-permanent investment in Middlesbrough.

So, also, other banks were passing through difficult years. The Sheffield banks did not escape untouched, though less heavily involved than might have been expected from their considerable participation in the iron and steel trade. The reports of both began to speak of depression in trade during the late 'seventies, but it was the Sheffield Union, once again, that suffered most severely from its practice of supporting local expansion by excessive re-discounting. In 1876 the failure of a large steel works involved the bank to the extent of over £90,000, and for the time being no attempt was made to estimate, still less provide for, the loss, though at a later stage the cost of reckless financing proved to be a heavy one. By 1881 the Barnsley Banking Company found it necessary to dismiss staff because of the continued depression in trade, and in the same year the Leeds and County Bank wrote down its paid-up capital from £230,000 to £92,000 to meet losses, while the directors, in order to reduce expenses, "declined

to accept more than one-half the fees voted to them". The banks in the specialized wool centres complained of slackness of trade, and, although they felt the pressure of 1875 less intensely than the banks more particularly concerned with iron and steel, they did not wholly avoid loss. Both the Huddersfield and Bradford banking companies made transfers from contingency accounts to meet losses which, if far less, both relatively and absolutely, than those experienced by banks identified with the heavy industries, indicated the widespread retrogression in trade.

To some extent the losses of the Yorkshire banks resulted from the crisis of 1878, which struck at local industry when it was in a weakened condition. Indeed, when the crisis was at its height several of the banks found it prudent to send to London for additional cash resources, and there were fears, fortunately ill-founded, of a run on some of the branches. A general consequence was that all but one of the banks here described adopted limited liability under the terms of the Act of 1879<sup>(1)</sup> within four years of the passing of the new legislation. The exception was the Sheffield and Hallamshire Bank, which refrained from registering under the Act until ten years later. The figures summarized below give an outline of the position reached by 1879:—

	Capital paid up	Reserve fund	Deposits	Notes in circulation	Advances and bills	Branches
	(£000 omitted)					
Barnsley Banking Company ...	47	45	*	7	*	1
Bradford Banking Company ...	408	232	2,286	44	3,015†	nil
Exchange and Dis- count Bank ...	100	53	168	nil	310†	2
Huddersfield Bank- ing Company ...	415	194	1,961	33	2,121	4
Hull Banking Com- pany ...	121	133	757	29	935†	3
Leeds and County Bank ...	230	17	853	nil	1,081†	5
Sheffield and Hal- lamshire Bank ...	210	86	654	21	971†	nil
Sheffield Union Bank	180	69	428	nil	661	6
Yorkshire Banking Company ...	250	35	1,819	102	2,168†	24
York City and County Bank ...	175	151	1,809	87	1,718‡	23

\* No balance sheet available † Including cash ‡ Advances only

<sup>(1)</sup> See chapter I.

Perhaps the most remarkable characteristic of the table is the high proportion of each bank's resources lent directly in the form of advances and bills. Wherever the figures are complete they exceed by a considerable margin the totals for deposits, and reveal a conception of banking ratios far different from that of today. To some extent, again, this relatively high percentage of advances to industry and trade may be taken as a measure of the pressure upon local bank resources in manufacturing districts, and therefore as an indication of the forces that were shortly to bring about a marked trend towards amalgamation. Nor is this interpretation substantially modified by the fact that the total for advances and bills usually includes cash items, since where these are known they are comparatively small. The next most striking fact, as between the banks, is the high position held by the two pioneer institutions at Bradford and Huddersfield. Though still narrowly confined to their districts, they remained largest among the banks listed—a leadership that was at once a tribute to the active trade of their towns of origin and also to their distinguished history. They were followed closely by the two local exponents of branch banking, but these were deriving strength from a relatively broad area. The Yorkshire Banking Company had kept to its original scheme of branch banking, while the York City and County, in the years immediately preceding the date of the table, had begun upon extension.

Prior to 1871, when the Middlesbrough branch was opened, the York City and County Bank operated only eight branches and was principally concerned with the agricultural North Riding, but in succeeding years it began to extend in several directions. Some consolidation was secured in 1873 by purchasing for £5,000 the Thirsk branch of Jonathan Backhouse and Co., the Darlington bankers who had been established for a hundred years. Five years later the business of Harding and Co., private bankers at Burlington (now Bridlington), Burlington Quay and Driffild, was bought for £21,500, and an estimate of the strength of this local firm may be gathered from the statement made in course of negotiation that profits had averaged over £6,000 for the preceding four years. One of the partners, G. E. Harding, was retained in the service of the company as a local director. Largely under the initiative of William Wilberforce Morrell, the general manager, the bank then set out to acquire a larger connection. In 1878

negotiations for amalgamation with the Knaresborough and Claro Bank were begun, but were unsuccessful ; five years later £90,000 was offered for the business of the Leeds and County Bank, which, it will be remembered, was experiencing a setback at this time, but the Leeds bank asked a higher figure, and this proposition too fell through. A more fruitful opportunity of expansion arose from the difficulties of the Darlington District Joint Stock Banking Company. This bank, founded in 1831, had built up a moderate business, measured by over £300,000 of deposits, with branches in seven nearby towns. In June 1883 the speculations of the manager at Bedale caused a loss of about £22,000, and when news of the defalcation spread a slight run on the bank took place. In these circumstances the York City and County Bank made an offer of £70,000 for the business, and, as this sum covered both the paid-up capital of £48,000 and the reserve of £16,000 of the Darlington bank, the proposal was considered a good bargain and accepted.

From now on the York bank pressed forward a vigorous policy of opening branches and of amalgamation. In 1890 an approach was made to the Barnsley Banking Company, which, however, at that time refused to enter into negotiations. Four years later a quite considerable union of forces was achieved, for in that year an amalgamation was arranged with the Hull Banking Company.<sup>(1)</sup> This East Riding bank had continued to enjoy a career of steady prosperity ; yet it was becoming plain that the scope of business, which now included the accounts of railways, large seed-crushing mills, docks and glass works, was too large for the resources of the local bank. It also appears that the pressure towards amalgamation was increased by losses in an attempted revival of the cotton industry in Hull during the 'eighties, as well as in collieries and glass works. The Hull Banking Company, in its circular announcing the amalgamation, emphasized the benefits and strength which would accrue from uniting with a country bank of such high position ; while the York City and County Bank added to its expanding business an established connection in Hull and district, measured by deposits exceeding £1,300,000, a reserve of £140,000, and four branches in addition to the office at Hull.

<sup>(1)</sup> The terms were : one York City and County Bank share (of £10, with £3 paid up) for one Hull Banking Company share (of £20, with £4 paid up). Three of the directors of the Hull bank joined the board of the York bank.



At this period, moreover, other factors were beginning to force the pace of amalgamation between local banks, and among them was direct competition from London banks. In 1896 the Barnsley bank was driven to seek negotiations for an amalgamation refused only six years previously, because, in the words of the minute book :—

“ In connection with the recent communication from the London and Midland Bank, it was thought expedient to convey some intimation to the York Bank of the prospect of severe impending competition between rival banks in Barnsley with a view to ascertain whether that fact would interfere with their previously expressed readiness to re-open the question of amalgamation with this bank.”

At the end of that year agreement was reached, and an amalgamation with the York City and County Bank carried through, the Barnsley bank bringing £546,000 of deposits to the rapidly growing connection of the City and County.<sup>(1)</sup> The next step was the absorption of the Borough of Tynemouth Trading Bank at North Shields. This was a very small institution, registered in 1885 under the Friendly Societies Acts, and the purchase price of £1,800 was paid out of the profits of the York bank for 1896.

So far the York City and County Bank, in its enterprising efforts to acquire full representation, had followed industry along the north-east coast and the northern border of the county. A step in a new direction was taken in 1901, for in that year an amalgamation was arranged with the Cumberland Union Banking Company. This bank is dealt with in another chapter,<sup>(2)</sup> but it is interesting here to note that the Cumberland bank considered it far better to join with a country bank having the same interests as itself than to amalgamate with “ a big London bank, which would have cared nothing for local interests but would have swept up all the money they could get in the district and carried it off to lend in the South ”. By these two absorptions the York City and County Bank extended into the steel and shipbuilding industries of the north-east coast and the iron and steel trades

<sup>(1)</sup> The terms were : one York City and County Bank share (of £10, with £3 paid up) and £1 5s. cash for one Barnsley Banking Company share (of £25, with £5 paid up).

<sup>(2)</sup> See chapter IV. The terms were : one York City and County Bank share (of £10, with £3 paid up) for one Cumberland Union Banking Company share (of £30, with £12 10s. paid up).

of the north-west. It had, too, in the 'nineties opened branches in Rotherham and Sheffield—again following iron and steel. A marked feature of the bank's policy was a careful avoidance of the wool area, no doubt due in part to unwillingness to trespass on the special preserve of the Yorkshire Banking Company and other West Riding banks. But a far more weighty reason is to be found in the force of individual influence: William Wilberforce Morrell had a strong aversion to the business of the wool district, and could not be persuaded to open branches there. The purchase of the Cumberland Union was the last of the bank's absorptions.

The Yorkshire Banking Company, though originally a noted exponent of branch banking, pursued a very different course from that followed by the York City and County: it did not continue the experiment at Middlesbrough, but sought to consolidate its hold in the wool area; nor did it embark upon large amalgamations. The comparative results of these opposing policies is clearly to be seen in the figures for the two banks for 1870 and 1900:—

	(£000 omitted)					
	Capital paid up		Reserve fund		Deposits	
	1870	1900	1870	1900	1870	1900
Yorkshire Banking Co.	250	375	66	325	1,839	4,854
York City and County Bank	...	...	125	720	1,365	9,075

In 1870 the Yorkshire Banking Company was the larger undertaking, but by 1900 the position had been reversed, and the figures of the York City and County Bank were about double those of the rival organization. When it is considered that the Cumberland Union amalgamation of the York City and County Bank is not included in these figures, it will be seen how great a reward had been reaped by the bold policy of amalgamation and branch extension pursued by the more enterprising bank.

Most of the other banks of the district, notwithstanding loss of ground before the advance of branch organizations, clung to strictly localized spheres of activity. True, the Huddersfield bank, which entirely rebuilt its head office premises<sup>(1)</sup> in 1880, thereafter opened eleven sub-branches, but they were all within a short distance of the parent office and it remained, like the Bradford bank, in all essentials confined to its town of origin. In

<sup>(1)</sup> The premises were on the site of those first occupied by the bank in 1828. They now form the Cloth Hall Street, Huddersfield branch of the Midland Bank.

the same way, the two Sheffield banks late in the century established a few branches in the near neighbourhood of the town, but there was no endeavour to carry their interests further afield. Such a conservative policy could have but one result—amalgamation with more progressive banks; and the history of the York City and County Bank has shown that, as the nineteenth century drew to a close, so the trend in economic life pressed ever more strongly towards larger banks.

There was another side of this development that was soon to bear upon the position in Yorkshire. This was the need for association with London. There were banks, such as the York City and County Bank, which resisted for a time the trend towards centralization, but already a small group of powerful country institutions had obtained a footing in London and begun to seek deliberately a branch system spread throughout the country. The local banks in Yorkshire presented them with an opportunity for expansion, while the advent in a provincial town of a London institution of this description, either by way of amalgamation or branch extension, meant keen competition for local banks, and aroused the feelings of dismay expressed by the Barnsley bank in 1896. There was good reason, for the new type of bank, with its greater resources, extensive branch system and London office, could offer not only finer rates, but also a much more complete banking service than the local banks. Long before the Barnsley bank felt alarm there had been an incursion into Yorkshire of just such an institution.

The Midland Bank, even before it had extended to London, had reached northwards into Yorkshire by a dual amalgamation. In May 1890 the Leeds and County Bank and the Exchange and Discount Bank, both of Leeds and district, had formed two of the early absorptions of the Midland. At the amalgamation meetings the general reasons for the movement were clearly expressed. "There was a tendency towards the formation of large and powerful combinations," declared the chairman of the Leeds and County Bank, "which had almost become a necessity to meet the calls now made upon them by mercantile and manufacturing firms which had in recent years grown into existence."<sup>(1)</sup> Nevertheless, a particular cause affecting this bank was that the difficulties eight years previously had taken a heavy toll in reduced capital

<sup>(1)</sup> As reported in the *Yorkshire Post*, May 17, 1890.

and diminished confidence. Far different was the position of the Exchange and Discount Bank, which had enjoyed a career of almost unbroken prosperity. As the chairman observed, the amalgamation took place because "mutual advantages must spring from the union". It is perhaps worth noting that these early amalgamations embraced banks of comparatively short history, possessing no right of note issue, and therefore likely to be less reluctant to forsake their independence. By these paths the Midland Bank made its forceful entry into the West Riding of Yorkshire, taking over a business connection to be seen in deposits amounting to £1,079,000 at the Leeds and County Bank and £288,000 at the Exchange and Discount Bank.<sup>(11)</sup> The intrepid bank promoter of Leeds, John James Cousins, was appointed to the board of the Midland.

A year after the extension into Yorkshire the Birmingham and Midland Bank changed its name and status on amalgamating with a London bank.<sup>(12)</sup> Thereafter it continued to grow rapidly, both by the absorption of smaller banks and by establishing branches. Thus in Yorkshire the peace of local banking was disturbed by amalgamation and then by branch extension. A branch was opened at Sheffield in 1890, and it was not long before the Midland was seeking representation in other West Riding towns. Early in 1897 it informed the Huddersfield Banking Company that it was about to open a branch in Huddersfield, but that if an amalgamation could be arranged, then that would be preferred. Despite the strength of the local bank, the directors agreed to entertain the proposal "in consideration of the future prospects resulting in severe competition and rivalry which would ensue by the location of so strong a bank in Huddersfield". After three months of negotiation terms were agreed upon,<sup>(13)</sup> and the Midland fell heir to the remarkably fine connection of the Huddersfield Banking Company. At the time of amalgamation the Huddersfield bank, with a capital of £411,000 and reserve of £226,000, controlled deposits of £3,335,000. Sir Joseph Crosland, chairman of the local bank, was elected to a seat on the board of the Midland.

<sup>(11)</sup> The terms were: one Midland share (of £60, with £12 10s. paid up) and £1 10s. cash for three Leeds and County Bank shares (of £85, with £10 paid up); one-and-a-half Midland shares (of £60, with £12 10s. paid up) for five Exchange and Discount Bank shares (of £10, with £5 paid up).

<sup>(12)</sup> See chapter X.

<sup>(13)</sup> The terms were: one and three-eighths Midland shares (of £60, with £12 10s. paid up) and £1 7s. 6d. cash for one Huddersfield Bank share (of £100, with £25 paid up).

The course of amalgamation was cumulative, for when one local bank joined forces with a strong London bank it became imperative for other banks of the area to seek an ally against intensified competition at their very doors. So it was that in due course the other banks one by one joined in the process of integration. After the Huddersfield amalgamation, the next bank to join the Midland system was the Sheffield Union. Following upon the severe setback which this institution had suffered in the late 'seventies, ten years elapsed before the losses of those unfortunate years were fully written off. But the lesson had been well learnt, and thereafter the bank followed a less adventurous path. The evil practice of excessive re-discounting was abandoned, and public confidence so much restored that during the 'nineties the bank was steadily growing. It had also begun to open branches within the boundaries of Sheffield, then a novel type of extension for that town, and increased the paid-up capital to £180,000 by the issue of new shares. Nevertheless, it can hardly be doubted that overtures from the Midland Bank were welcome when made during the spring of 1901, and in June an agreement was negotiated.<sup>(1)</sup> This strengthened considerably the position of the London bank in Sheffield, for at the time of amalgamation the local bank held deposits of approximately £1,400,000.

Within a few weeks negotiations were begun with the Yorkshire Banking Company, and in November 1901 they were carried to a successful conclusion.<sup>(2)</sup> This was a much more considerable amalgamation, since the Yorkshire Banking Company was represented at no fewer than sixty places by branches and agencies, and controlled deposits of nearly £5 millions. The directors of the Yorkshire bank had been considering amalgamation for some time, and "were cognizant of the advantages which would accrue from an alliance with a large bank having a powerful connection in London and all over the country, instead of continuing as a comparatively small institution carrying on business within a limited area and dependent on another bank to transact its business in London".<sup>(3)</sup> The process of consolidation of banking in Yorkshire thus advanced swiftly at the turn of

<sup>(1)</sup> The terms were: one Midland share (of £60, with £12 10s. paid up) for two Sheffield Union shares (of £40, with £10 paid up).

<sup>(2)</sup> The terms were: one and one-sixth Midland shares (of £60, with £12 10s. paid up) and twelve shillings cash for six Yorkshire Bank shares (of £10, with £2 10s. paid up).

<sup>(3)</sup> As reported in the *Leeds Mercury*, November 9, 1901.

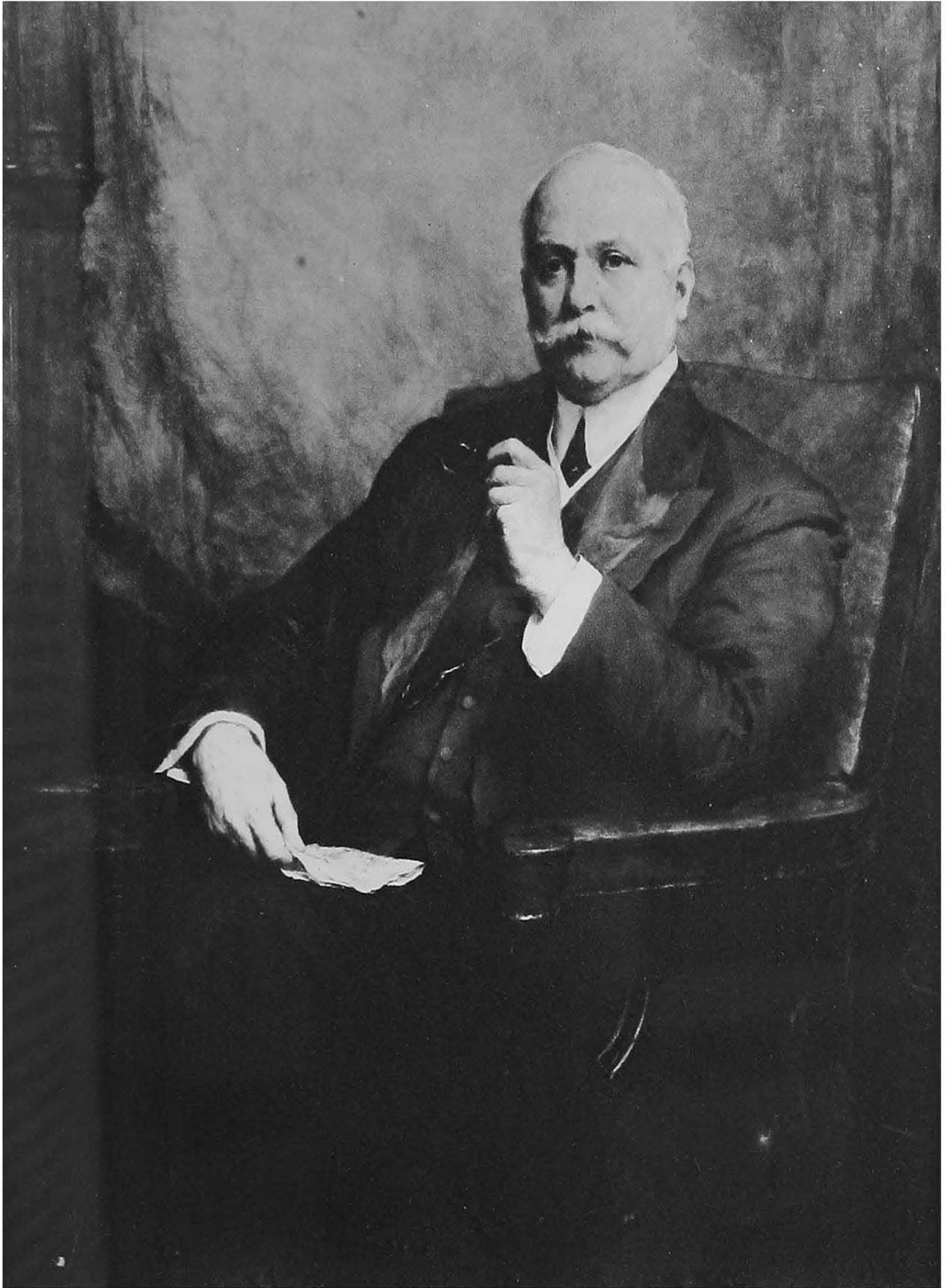
the century, but it halted at a stage that was far from complete. Some banks retained their independence for yet another decade.

The York City and County Bank did not resist the current of amalgamation longest, though it made a determined stand for some years. After the Cumberland Union absorption at the beginning of the century, deposits failed to increase and profits began to fall—a common experience of provincial banks at this period. Moreover, the fall in investment values was weighing heavily upon the York bank. In 1904 a sum of £70,000 was applied to writing down investments, and two years later a similar provision, together with a full allowance for losses and future contingencies, required a transfer of £150,000 from reserves. The rate of dividend declined from 20 to 16½ per cent. In these circumstances the bank sought a favourable opportunity for amalgamation, and found it when in 1909 negotiations were opened and rapidly concluded with the London Joint Stock Bank,<sup>(1)</sup> an institution that had hitherto kept as strictly to London as the York bank to the provinces. At one step this heavily reduced the proportion of Yorkshire banking which remained independent, for the City and County Bank possessed more than ninety branches and as many sub-branches and agencies, while deposits amounted to over £11 millions.<sup>(2)</sup>

Later in the same year one of the last representatives of separatist banking in the West Riding was induced to relinquish independence. This was the Bradford Banking Company, which in November 1909 entered into negotiations for amalgamation with the Midland Bank, and brought them to a successful issue at the beginning of the following year. The bank, though experiencing the trials common to all country banks during the early years of the nineteenth century, had enjoyed a career of uninterrupted prosperity. With a paid-up capital of £408,000 and reserve of £150,000, it was in an exceptionally strong position, and well merited the public confidence expressed in deposits amounting to £1,714,000. The fact that the bank operated in the centre of a district noted for strong sympathy with individual enterprise, and concerned with a highly specialized industry, may account for the long stand against amalgamation. But the time for local banks had

<sup>(1)</sup> The London Joint Stock Bank amalgamated with the Midland Bank in 1918. See chapter X.

<sup>(2)</sup> The terms were: three London Joint Stock Bank shares (of £100, with £15 paid up) and £5 cash for ten York City and County Bank shares (of £10, with £3 paid up).



*[From the portrait by Walter H. Oulss*

SIR EDWARD HOLDEN, BARONET

passed, just as the small family firm had lost the lead in local manufacture, and for some years the Bradford bank had been aware of the need for change. Thus during the last quarter of the nineteenth century deposits had always exceeded £2 millions, and sometimes approached £3 millions; after 1900 a slow but steady decline brought them down to £1½ millions. Indeed, only a few months before amalgamation the directors so far forsook their policy of eighty years' standing as to prepare for branch extension. Happily for their peace of mind—since at this late period the venture could hardly have been successful—the beginning of negotiations for amalgamation led to the abandonment of the project.

There remained one bank among those considered that clung to a splendid isolation—the Sheffield and Hallamshire Bank; and this noteworthy example of small provincial banking preserved independence until 1913, in spite of minor shocks to the banking system. Thus the failure of Birkbeck's bank in 1911 brought to a head the difficulties of a local bank whose origin has been noted, the Yorkshire Penny Bank. In spite of many years of success, to be seen in a deposit total of over £18 millions by 1911, the position of the bank was endangered in that year by a run upon the Sheffield branch. There had been a similar display of lack of confidence in 1900, and this second warning could not be disregarded. The size of the business had outgrown the type of constitution, and it was clear that modernization was essential. In these circumstances Sir Edward Holden, as chairman of the bank which had acquired by amalgamations a very strong position in Yorkshire, took the lead in reform. After energetic canvassing of various schemes, agreement was at last reached. With the co-operation of the Bank of England a new limited company was formed, of which the whole of the share capital was held by a group of eleven banks. Prominent among them were the Midland and the London Joint Stock Bank.

The even course of the Sheffield and Hallamshire Bank was not interrupted by these changes within its neighbourhood, though they could not fail to intensify the pressure towards amalgamation. Not for another two years did the bank give way, and here again it was probably a combination of local pride and a specialized business that helped to maintain the bank's independence. In June 1913, however, negotiations with the



Midland were concluded,<sup>(1)</sup> the Sheffield bank having at that time a paid-up capital of £300,000, a reserve of £202,000 and deposits of approximately £2 millions.

This was the Midland's last direct amalgamation in Yorkshire, though five years later, when it joined forces with the London Joint Stock Bank, a further consolidation took place. The brief survey that has been made of the history of these Yorkshire banks yields some surprising results. Thus, some of the banks concentrating largely upon one industry showed an astonishing degree of steadiness. The Huddersfield Banking Company paid a dividend of ten per cent for a period of fifty-one years, supplemented, during the last nine years of its separate existence, by bonus distributions. The Bradford Banking Company also paid ten per cent for the last thirteen years of its separate existence, while the Sheffield and Hallamshire Bank enjoyed a remarkably undisturbed life. Most of the banks made additions to capital from surplus funds, besides building up substantial reserves. On the other hand, there were similarly placed banks that were far less successful. The Sheffield Union met with indifferent fortune for many years, and the Leeds and County Bank suffered severe reversal. So, too, there is a striking difference between the histories of the two banks operating branch systems, the Yorkshire Banking Company and the York City and County Bank, which forbids any simple explanation of the divergent experience of individual banks unless it be that, as already adduced, good bankers make good banks.

<sup>(1)</sup> The terms were: three Midland shares (of £60, with £12 10s. paid up) and 1s. 8d. per share in cash for eleven Sheffield and Hallamshire Bank shares (of £20, with £5 paid up). The chairman of the Sheffield bank, George Franklin, was elected to the board of the Midland Bank.

## APPENDIX TO CHAPTER VII

## EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

		(£,000 omitted)						
Name of bank	Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills		
<b>BARNSELY BANKING COMPANY</b>								
1880	...	47	46	7	?	?	?	
1890	...	60	34	6	471	337		
<b>BRADFORD BANKING COMPANY</b>								
1870	...	220	228	43	1,280	875	?	
1880	...	408	233	38	2,248	2,148	?	
1890	...	408	175	26	2,096	1,881	?	
1900	...	408	175	22	2,213	2,091	?	
<b>DARLINGTON DISTRICT JOINT STOCK BANK</b>								
1880	...	48	15	21	?	?	?	
<b>EXCHANGE AND DISCOUNT BANK</b>								
1870	...	50	7	nil	51	40	62*	
1880	...	100	53	nil	194	354*		
<b>HUDDERSFIELD BANKING COMPANY</b>								
1880	...	415	145	36	2,181	2,553		
1890	...	411	210	28	2,815	3,062		
<b>HULL BANKING COMPANY</b>								
1880	...	121	121	29	728	910*		
1890	...	160	140	28	1,143	1,346*		
<b>LEEDS AND COUNTY BANK</b>								
1870	...	230	nil	nil	575	492	?	
1880	...	230	nil	nil	863	766	?	

\* Including cash

APPENDIX TO CHAPTER VII—*contd.*

## EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

Name of bank	Capital paid up	(£000 omitted)		Deposits	Advances	Bills
		Reserve fund	Notes in circulation			
<b>SHEFFIELD AND HALLAMSHIRE BANK</b>						
1840 ...	75	4	35	122	168	66*
1850 ...	125	17	22	179	344†	
1860 ...	178	43	23	273	491†	
1870 ...	183	53	22	404	669†	
1880 ...	210	87	18	632	946†	
1890 ...	210	84	12	929	833	
1900 ...	300	208	8	1,695	1,739	
1910 ...	300	201	2	1,719	1,621	
<b>SHEFFIELD UNION BANKING COMPANY</b>						
1850 ...	41	3	nil	97	84	?
1860 ...	82	10	nil	161	208	?
1870 ...	120	23	nil	248	402	
1880 ...	180	25	nil	446	650	
1890 ...	150	14	nil	716	707	
1900 ...	180	65	nil	1,302	1,123	
<b>YORK CITY AND COUNTY BANK</b>						
1830 ...	24	nil	4	62	76	27*
1840 ...	75	33	92	589	680	90*
1850 ...	100	26	87	753	833	94*
1860 ...	100	30	93	1,107	588	346*
1870 ...	125	59	87	1,365	1,267	270*
1880 ...	175	154	83	1,956	1,821	230*
1890 ...	300	280	80	3,512	2,858	
1900 ...	720	905	77	9,075	7,575	
<b>YORKSHIRE BANKING COMPANY</b>						
1850 ...	152	22	118	664	571	391*
1860 ...	152	50	117	1,137	726	606*
1870 ...	250	56	110	1,623	1,357	590*
1880 ...	263	15	95	1,990	1,575	540*
1890 ...	313	70	103	3,635	2,310	728*
1900 ...	375	325	89	4,854	2,807	862

\* Including cash

† All assets except Premises

## CHAPTER VIII

### THE EAST MIDLANDS AND BEYOND

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In 1899 there remained some of the midland and neighbouring counties in which the London City and Midland Bank was by no means strongly represented. Although branches had been opened at Leicester in 1889 and at Nottingham seven years later, there had been little development in those districts, while there was no branch at Lincoln until 1909. Accordingly, a process of consolidation in the midlands and extension eastwards to the sea was begun by amalgamation with the Leicestershire Banking Company in 1900, though it was not until 1905 that the next considerable step was taken by absorption of the Nottingham Joint Stock Bank, to be followed eight years later by amalgamation with the Lincoln and Lindsey Bank.

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TO cover in one chapter the whole range of the three counties, Leicestershire, Lincolnshire and Nottinghamshire, is to consider an area considerably smaller than Yorkshire, though not dissimilar in wealth of natural resources. To a rich and varied agriculture have been added textile and metal trades, largely concerned with secondary processes. Leicestershire and Nottinghamshire enjoyed an early industrial prosperity based upon textile manufacture. During the sixteenth century the knitting of stockings by hand grew up as a small industry until, towards the close of Elizabeth's reign, the invention of the knitting frame at a village near Nottingham marked the beginning of a great hosiery trade that was to extend through the county of its origin and into Leicestershire, Derbyshire and farther afield. From its first years the industry required relatively large capital resources, for the frames were expensive machines. Hence the hosier soon emerged as an owner of frames let out on hire to cottage operatives, to whom he also supplied raw materials and from whom he collected finished goods. The eighteenth century saw the trade firmly established as a domestic industry widely practised in the cottages of Nottingham and surrounding villages, while it was becoming fairly general in Leicester and neighbourhood and had spread to Derbyshire.

Quite apart from the very considerable benefits reaped from an invention of such early date, the area was favoured in other ways for the pursuit of its principal industry. The grasslands of

BANKS IN LEICESTERSHIRE, LINCOLNSHIRE AND NOTTINGHAMSHIRE  
FORMING PART OF THE MIDLAND BANK

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PRIVATE BANKS

Established	Firm	Town	Absorbed by
1776 ...	Oliver and Mansfield : later became	} Leicester	
1798	Mansfield and Miller : partnership separated into two banks, one of which was:		
1814	Miller and Co.		
1780 (?)	Joseph Wilkes and Co. : became	} Ashby-de-la-Zouch	
1805	Fishers and Co. ...		
1788 ...	Thomas Gee and Co.	Boston ...	Suspended payment 1874: taken over by Lincoln and Lindsey Banking Company
1790 ...	Middleton and Co. ...	Loughborough	Suspended payment 1878: taken over by Leicestershire Banking Company
1819 ...	Hardy and Co. ...	Grantham	Leicestershire Banking Company, 1895

JOINT STOCK BANKS

1829 ...	Leicestershire Banking Company	Midland Bank, 1900
1833 ...	Lincoln and Lindsey Banking Company ... ..	Midland Bank, 1913
1865 ...	Nottingham Joint Stock Bank	Midland Bank, 1905

Leicestershire were of high renown for the quality of the sheep they supported; it was on his farm near Loughborough that Robert Bakewell made his eighteenth century experiments which greatly improved a breed of sheep famous for centuries before. Some of the first studies in the scientific feeding of livestock arose out of William Marshall's pioneer investigations in Leicestershire. Then, too, the area possessed an ample water supply and an invaluable means of transport in the river Trent and its tributaries, which, besides being of first importance in the preparation and carriage of wool products, possessed an added utility because the gypsum content of the water made it particularly well suited for brewing.

Although the staple occupations were agriculture and textile manufacture, there were other industries more closely allied to the main activity of other midland counties. Iron had been worked by the smiths of Nottingham and Leicester from early times, the trade drawing upon local iron ore and making use of charcoal from the forests of Sherwood and Charnwood. In one branch, that of bell founding, there was a specialized development in Leicestershire, but in later years the iron trade was largely bound up with textile manufacture and took the form of engineering and the construction of machinery for the textile mills. The Leicestershire and Nottinghamshire coalfields provided yet another basis for economic activity; well situated to serve the market for domestic use, as well as local industries, the coal mining industry expanded as improved transport methods made it possible to dispose of the output in densely populated areas, particularly in London.

It was, perhaps, because of long industrial history, together with the association of early framework knitting in the midlands with the trade in London, that banking arose in Nottingham very early indeed. The first recorded provincial banker in England was Thomas Smith of Nottingham, who began business late in the seventeenth century. During the second half of the next century a number of banking firms arose to meet the needs of growing industries. In Leicester one of the earliest banks was founded by John Mansfield, a draper, who in partnership with a wine merchant established the bank of Oliver and Mansfield in 1776. A later partner in the firm was Thomas Miller, and he, after several years' experience with the old bank, left the partnership

about 1814 to found a bank of his own under the title of Miller and Co. The rising importance of the hosiers may be judged from the foundation of more than one local bank at this period by leading manufacturers in the industry.<sup>(1)</sup>

As in the principal towns, so in the larger villages round about, banking was beginning to establish itself. Thus at Loughborough, a market town with some textile manufactures as well as an iron industry, the bank of Middleton and Co. was formed in 1790. At that time Loughborough's population numbered no more than four or five thousand, but its industries were sufficiently active to present an opportunity for the establishment of a local bank. Middleton and his successors were keenly interested in the agricultural progress of the district, and were horticulturalists of some distinction. In later years the long veranda of the bank house at Loughborough was decorated with window-boxes and pots ablaze with flowers that were the special pride of the old banker.

A few miles away, in the neighbourhood of Ashby-de-la-Zouch, there were similar developments. Here the story arises from the enterprise of Joseph Wilkes, born at Overseal, near Ashby, in 1732. At the age of forty-three Wilkes was described as a merchant in partnership with his brothers, but within a short time his centre of activity moved to Tamworth, where he became a cotton spinner as partner in the firm of Peel and Wilkes. There are some reasons for believing that the senior partner was a member of the family distinguished at a later stage by Sir Robert Peel, the father of the Bank Charter Act. The venture prospered, and extended by adding to textile manufacture a banking business operating in Tamworth and district. When, in 1790, the partners enlarged the banking side of their business by joining a London banking firm under the style of Peels, Wilkes, Dickenson and Goodall, there can be little doubt that their interest in banking was supplanting their interest in manufacture. Three years later the name of Peel disappears from the London partnership, and that of the Reverend Thomas Fisher the younger, a son-in-law of Joseph Wilkes, is substituted.

Meanwhile the energy of Joseph Wilkes had found another outlet in the near neighbourhood of Ashby-de-la-Zouch. About

<sup>(1)</sup> See "Leicester Memoirs" by C. J. Billson. Pares' Bank in Leicester was founded by a firm of hosiery manufacturers; so also was the Nottingham bank of Hart and Fellows. Billson gives an interesting survey of early banking development in Leicester.

1780 he bought the manor of Measham, a village three miles from Ashby, and proceeded to develop his acquisition by constructing a cotton mill and sinking a coal mine. Next he built a canal twenty miles long linking Ashby with the main canal system at Nuneaton, a venture which, though proving far from profitable, was an all-important step in the endeavour to promote industrial activity. As might be expected, he soon opened a bank at Measham, and his wide commercial and industrial activities made it the bank of the district. Moreover, Wilkes was keenly interested in agriculture, and a friend and active supporter of the famous Bakewell. There seem to have been few sides of the economic life of his time and district that were untouched by Joseph Wilkes, and enterprise in local banking ranked high among his efforts.

East of Leicestershire and Nottinghamshire stretches the great agricultural plain of Lincolnshire, the seat of much early experimentation in agriculture. During the latter part of the eighteenth century Jethroe Tull developed his system of husbandry; the acceleration of the progress of the Inclosures Acts brought land into cultivation; and the pioneer work in sheep-breeding in Leicestershire was soon applied in Lincolnshire. The fertile soils of the eastern county made its farmlands noted for their high productivity, and the county grew to be distinguished for the fine quality of local breeds of cattle and sheep. The period of advance in agricultural methods saw the beginning of local banking, at first inspired from a neighbouring county. The old Nottingham banking firm of Smiths established an associated partnership in Lincoln under the name of Smith, Ellison and Co. about 1775. It grew and prospered with the development of the county, displaying unusual enterprise by establishing branches in the principal towns of north Lincolnshire and gaining in consequence a large note issue. For nearly a century<sup>(1)</sup> this firm held first place in local banking arrangements and presented a remarkable example of stability, surviving the inevitable stresses arising from partnership form.

It was only at an advanced stage in the development of iron and steel that the mineral resources of Lincolnshire were drawn upon to any considerable extent. Iron ore, obtained at first in the south, but during the nineteenth century increasingly sought in the

<sup>(1)</sup> In 1902 it merged into the Union of London and Smiths Bank, which subsequently amalgamated with the National Provincial Bank.



north-west area, was found so near the surface that the process of extraction was one of quarrying rather than mining. Within the district surrounding Frodingham, Appleby and Scunthorpe a number of iron companies were established during the second half of the century. In 1898 a total of eight million tons of ore was raised in this district, and twenty local blastfurnaces produced 300,000 tons of iron. Six years later, Lincolnshire and Leicestershire taken together produced one-third of the total iron output of the United Kingdom. A specialized development more nearly concerned with the principal economic activity of the county was the formation in Lincoln of a small group of firms concerned in the manufacture of agricultural machinery which found a market throughout the world. Lincolnshire was thus predominantly concerned with agriculture, and with bulky and heavy produce, and thus was particularly fortunate in being generously equipped with extensive natural waterways. The coastline is the base of an important fishing industry, centred at Grimsby, which quickly expanded in the second half of last century with the coming of the railway and the development of methods of refrigeration and deep sea trawling.

In spite of the early advent of banking enterprise from Nottingham in the northern part of the county, financial development in south Lincolnshire rested upon the efforts of local firms. Prominent among them were private banks directly connected with this story. At Boston in 1788 the partnership of Thomas Gee and Co. was founded, a bank confining its activities to the one town, but there pursuing an active career until well on in the nineteenth century. Of later formation but greater interest is the bank of Hardy and Co., established at Grantham about 1819, a firm which reached a high position in provincial banking. It was founded by the Hardy family who, one time of Leicestershire, moved to North Witham in the second half of the eighteenth century. There they became farmers in a large way, steadily adding to their property in the fertile acres of Lincolnshire. The third John Hardy, born in 1770, became possessed, through his marriage in 1804, of a hostelry known as the Black Bull Inn at Witham Common, and, making the inn his place of residence, added the duties of host to his farming interests. Judging from the fact that stabling for over 200 horses was provided, it may be assumed that these duties were considerable, the more so since

the house was used for private posting by numerous travellers on the road to the north.

In 1819 John Hardy, with the wealth that he had acquired as a farmer and an innkeeper, turned to banking, entering into partnership with Francis Turner and Frederick Newcome to establish at Grantham the firm of Turner, Hardy and Newcome. The partners set down the terms of their contract in writing, and by rare good fortune the deed has been preserved. It is dated January 29, 1819, and runs for seven years. In it may be read that Turner and Hardy each brought in £5,000 of capital, while Newcome contributed £6,000. Hardy, perhaps because of his other interests, was not required to give the "constant and diligent attendance at the Bank" which was the duty of the other two partners, though a saving clause stated that no loan exceeding £300 was to be made without the consent of all the partners. Frederick Newcome was apparently a former partner in the Grantham bank of Holt, King and Newcome, and business was to be transacted in the room originally occupied by the earlier firm. It seems that Newcome was a lawyer, since he undertook to transact the law business of the firm free of charge. But by far the strangest clause was one in which Newcome guaranteed his partners against any loss that might arise in course of business "it being the meaning and intention of the said Frederick Newcome that if any such loss and damage shall happen the same shall be solely borne and paid by himself and no part thereof by his said partners"; and this in spite of the fact that profits were to be divided equally. Within a few years Hardy was taking a far more active interest in the bank; the name of Turner was replaced by Walkington, and the Lincolnshire farmer and innkeeper appeared as the principal partner. Doubtless his landed property added to the prestige and reputation of the firm among his neighbours, while probably, as years went by, the elderly farmer came to prefer the more sedentary occupation of banking. There was one other cause confirming his concentration upon banking, which reveals approaching changes in trading conditions and also the farmer-innkeeper-banker's foresight in appreciating their full significance. It is said that when the first steps in the construction of the Great Northern Railway were under consideration, John Hardy, perceiving the imminent decline of the "posting house", promptly sold the Black Bull Inn with all its

contents. Thereafter, he and later his son John were the leading partners in the old bank at Grantham, which thereby came to be known generally as Hardy's Bank.<sup>(4)</sup>

As the nineteenth century entered upon its second quarter, economic activity in all three counties rapidly increased. The hosiery trade both in Nottinghamshire and Leicestershire was highly organized upon a domestic outwork system, and had attained considerable territorial specialization. This trend had been intensified by a remarkable development in Nottinghamshire which once again followed upon a local invention. About 1809 the first successful machine for bobbin-net manufacture was brought into operation, and in a comparatively short time the lace trade became of great importance in Nottingham and district. Meanwhile, Leicestershire was making considerable progress in the production of woollen knitted goods, in which it had already become specialized. By 1833 the county's supremacy in the woollen hosiery trade was assured, since over eighty per cent of the knitting frames using wool in the United Kingdom were situated in Leicestershire, whereas her proportion of frames using cotton was less than one-third. Here, too, is the reason for widespread distress among the unfortunate stockingers, whose skilled trade was being supplanted by the cheaper production of the machines. The rising trade was accompanied by a swift growth of population, which in the thirty years following 1801 increased by over fifty per cent to 197,000, while in Leicester itself the number of inhabitants more than doubled, rising from 17,000 to 41,000.

Throughout the United Kingdom a similar rapid growth of population was taking place, and, since the import of foodstuffs showed no corresponding increase over the period, it is clear that home farming supplied the new and expanding demand. The times favoured the emergence of the larger farm, and the progress of industrialization provided alternative employment for many of the peasants dispossessed under the Inclosures Acts. Once the large farm was firmly established as the ordinary agricultural unit, it became possible to continue the improvement in methods, and thus to feed from home sources the teeming populations of the new industrial towns. Lincolnshire population statistics give

<sup>(4)</sup> There is an interesting link between Hardy's Bank and the firm of Pocklington and Lacy, of Smithfield Market, whose history is told in chapter IX. From earliest years Hardy's kept an account with this London bank, a relationship that probably arose from the farmer sending stock by road for sale in the market and requiring his representative to pay in the proceeds at the market bank.

some indication of the part played by agricultural areas in supporting the rise of industry. The county, with approximately 317,000 inhabitants in 1831, records a proportionate growth from the beginning of the century similar to that of Leicestershire and not far behind Nottinghamshire, in spite of the greater industrial development in the two inland counties. More revealing is the much lower degree of urbanization in agricultural areas; in 1831 Lincoln recorded a population of only just over 11,000 persons, or not much more than one-fourth that of Leicester and one-fifth that of Nottingham. It was natural that this period of economic progress should press hard upon existing financial arrangements; and, although the number of private banks increased, they were manifestly ill-equipped to meet the swift changes taking place in industry and agriculture, where units of production were growing in size and numbers. When it became legally possible to form joint stock banks, all three counties witnessed the establishment of new institutions in their principal towns. The advent of joint stock banking, here as elsewhere, led to the decline and eventual disappearance of the private firm, and set in motion a process of structural consolidation in the financial arrangements of all three counties.

Leicester was the first town in the area to make use of the facilities offered by the new banking law, for in January 1829 the prospectus of the Leicestershire Banking Company was made public. Sponsored by a provisional committee that combined county families with active business men, the prospectus made a strong appeal for confidence. It referred to the success which joint stock banks had already achieved in other towns and spoke of the "unquestioned security" afforded by the joint stock principle. But the project was met by a storm of opposition, largely inspired, it may be surmised, by the efforts of established private banks to obstruct the creation of a powerful rival. The correspondence columns of local newspapers formed a field of battle between the two forces, and it was not long before politeness was forsaken in endeavours to deal a deadly blow. A correspondent had no hesitation in describing the originators of the bank as "characterized by incessant and restless contrivances to get money", and offered the sinister suggestion that they were "men engaged in trade and consequently had an object in knowing the pecuniary situation and connections of their competitors in

business". Another letter spoke of the project as "quixotic and utopian, as an attack upon windmills or a visit to the moon". The offices from which the bank prospectus emanated were in Friar Lane, and this provoked an anonymous description of the promoters as "mendicant friars . . . ease-loving gentry who go about the country seeking whom they may devour".<sup>(11)</sup> These open expressions of hostility were sufficient to make prospective investors nervous of supporting the scheme. Out of an advertised nominal capital of £500,000 in shares of £100, only one-tenth was to be paid up; but it was expressly declared that the bank would be formed when 2,000 shares had been subscribed, so that no more than £20,000 of capital was required at the outset. Yet it was not until eight months had elapsed that the bank was ready to open, and even then it did so with a capital of only £14,000.

With such meagre encouragement the Leicestershire Banking Company opened for business in Friar Lane on September 1, 1829, under the management of George Webb, and with a board of five directors, who selected as their chairman William Kenworthy Walker.<sup>(12)</sup> Three days after the doors were opened a local newspaper<sup>(13)</sup> once again revealed the extraordinary bitterness with which the new company was greeted. Nevertheless, the directors, undaunted by wholesale vilification, began a vigorous search for business, after the manner of many new banks, by offering attractive rates of interest—bills were to be discounted at four per cent, current accounts were to be allowed three per cent when in credit and charged five per cent when overdrawn, while deposit receipts of two months and upwards were granted three per cent. Within six months it was discovered that these rates were unprofitable, and the allowance on credit balances was reduced to two-and-a-half per cent.<sup>(14)</sup> Even so, the credit rates were high enough to disturb private bankers, and once again the cry was raised that customers of joint stock banks ran serious risk of disclosure of their business affairs. Accordingly, the board of the banking company adopted the usual plan of selecting two from their number to consult with the manager daily, and ruled that no other director should see the bills or accounts of any customer.

<sup>(11)</sup> The quotations are from the *Leicester Chronicle*, January and February 1829.

<sup>(12)</sup> The other directors were: Thomas William Dabbs, Harby Barber, Onesiphorus Raworth and a John Bright.

<sup>(13)</sup> *Leicester Journal*, September 4, 1829; leading article, "Defence of Country Bankers".

<sup>(14)</sup> Three years later it was further reduced to two per cent.

The balance sheet drawn up sixteen months after opening showed that the business of the bank was so far quite small—deposits amounted to only £27,000 and notes in circulation to £13,000— notwithstanding the early opening of a branch at Hinckley. The business of the bank, however, according to the directors' report, was improving, "notwithstanding the opposition and prejudice manifested against this Company at and previous to its formation". In view of the hopeful outlook a dividend of four per cent was paid. In these early years the bank fought its way step by step into public favour, despite insufficiency of capital, strong opposition and those minor business misfortunes inevitable in a new banking enterprise. In 1831 the bank was fortunate enough to secure on competitive terms the business of receiving the taxes of the county. But the same year brought losses from forgeries and failures which were more than sufficient to absorb the whole of the reserve fund. The directors continued to complain of "strong opposition and prejudice" manifested against the bank, at the same time boldly declaring "that the Joint Stock Banking system must eventually supersede that of private banking throughout the Empire". Arrangements were made with joint stock banks in Birmingham and Manchester to act as agents for the "receipt and payment of monies for their several customers free of expense", a further attack upon the ground held by private banks, since the practice had been to make a charge for transfers of this kind. In 1834 a draper at Market Harborough was appointed agent to the bank, despite the presence in the town of an old-established private firm, Inkersole and Goddard, and towards the end of the same year negotiations were begun for two decisive transactions that were to lift the Leicestershire Banking Company into a far stronger position.

The first step was taken at Ashby-de-la-Zouch in 1834. Reference has been made to the genesis of banking in Measham and Ashby-de-la-Zouch by the enterprise of Joseph Wilkes, industrialist and private banker. Wilkes died intestate in 1805, and the ultimate outcome of the confusion into which his affairs were thrown was the closing of the London branch of his firm and the emergence of the bank of Fishers, Simmonds and Mammatt at Ashby-de-la-Zouch and Measham. All the partners were members, by blood or marriage, of the Wilkes family, and, although the Measham office seems to have been discontinued, the bank maintained a strong

business in Ashby, surviving the storms and stresses of succeeding years. Nevertheless, when in 1834 the firm received an offer of absorption from the Leicestershire Banking Company, the partners were quite prepared to yield to the tendencies of the time. Negotiations were begun immediately, but received a setback from rumours that legislation was pending which would limit the geographical scope of branch banking. Although Ashby was only twenty miles from Leicester, the half-finished negotiations were set aside until, early in 1835, Edward Mammatt died, and, as was often necessary, the firm suspended payment until his affairs could be cleared up. The Leicestershire Banking Company immediately opened a branch at Ashby, appointing as manager the late managing clerk of Fishers, Simmonds and Mammatt, and a few days later the premises, fittings and goodwill of the firm were purchased for £3,500.

The second step was taken in Leicester itself in April 1835. Only with difficulty had the banking firm of Miller and Co., already mentioned, maintained an independent existence. During the troubles of 1825, for instance, the senior partner had been seen at an early hour of the morning "accompanying a wheelbarrow from his private residence to his banking house . . . containing a large quantity of the precious metal".<sup>(1)</sup> From then onwards the business seems to have declined; yet the firm enjoyed a high reputation, and presented an excellent opportunity of expansion for a progressive joint stock company. In consideration of fifty shares in the Leicestershire bank, Mr. Miller was persuaded to retire from business, the public announcement on June 19 stating that "the notes of Messrs. Miller and Son will be paid by the Leicestershire Banking Company at their bank in Friar Lane, Leicester, or at any of their branches".

Thus by the close of 1835 the bank was going from strength to strength. Deposits had reached £118,000, and the note circulation had exceeded £30,000. Three years later the Market Harborough branch and business of the Northamptonshire Banking Company was purchased, while in 1840 a branch was opened in Atherstone to take the place of Weaver and Co., a small private firm that had suspended payment.<sup>(2)</sup> One or two new branches were opened.

<sup>(1)</sup> C. J. Billson: "Leicester Memoirs". Compare with the incident recorded on page 59.

<sup>(2)</sup> The connection in Atherstone was strengthened in 1845, when the branch there of the Coventry Union Bank, to which reference is made in chapter III, was taken over.

and a site in Granby Street was bought for a new head office. Meanwhile the bank had given financial support to local railway development, the forerunner of great changes in the economic life of the town and county.

The advent of joint stock banking in Lincolnshire followed closely the beginning in Leicester. During the early 'thirties two joint stock banks were established in the county, the second being born in Lincoln, a strongly-held preserve of long-established private banking. The prospectus of the Lincoln and Lindsey Banking Company,<sup>(1)</sup> as it was called, was issued in March 1833, largely by the enterprise of Richard Mason, solicitor and town clerk. As with the Leicester bank, the project met with opposition from established forces, and the prospectus reveals that in Lincoln political prejudice was being used as a principal weapon of attack<sup>(11)</sup> :—

“ The gentlemen taking an interest in the establishment of the Bank, disclaim party views and motives, which they observe have been ascribed to them by one or two local prints :—they hold no opinions in common upon political matters ; and have not thought of politics or party in connection with their project.—Neither do they purpose to establish a Joint Stock Bank in any spirit of rivalry, far less of hostility, to the highly respectable private Bank now existing in the City :—In short they are of opinion that the capital town of this large County, and agricultural district, presents ample scope for the operations of two Banks, and they have been actuated wholly by a view to the advantages, public as well as individual, which they are convinced must follow the introduction of a second, founded upon the basis of a public Company.”

As in many other formations, the nominal capital of £200,000 was much higher than the amount paid up : shares were of £200 denomination, but only £20 per share was called, making the original capital £20,000. The bank came into being at a meeting at the Guildhall a month later, when, in spite of evident opposition, the project was well received. All the shares were subscribed and “ there was a great demand for more ”, possibly because, in the

<sup>(1)</sup> The title suggested an intention of covering the northern part of the county, thus avoiding the area implied in the title of the other Lincolnshire bank, the Stamford and Spalding Joint Stock Banking Company, founded at Stamford in January 1832.

<sup>(11)</sup> Compare the experience of the North and South Wales Bank (see page 179) and the Carlisle City and District Bank (see page 121).



words of a local newspaper, "many county and city gentlemen of the greatest respectability [were] engaged on the concern among whom . . . [was] a distinguished baronet of large landed estates, a dignified ecclesiastic, many civic authorities and a great proportion of the trade and commerce of the City and neighbouring Towns".<sup>(1)</sup> A strong board of directors was elected, with Richard Sutton Harvey,<sup>(2)</sup> a surgeon of Lincoln, as chairman, while the promoters were able to acquire the services as manager of William Winn, a clerk in the old-established private bank of the town. Premises were rented opposite Saint Mary's Church, Lincoln, and the bank opened for business on August 14, 1833.

Some of the experiences of the early days of the bank throw valuable light on the financial methods of the locality. Correspondence with London agents reflected the special nature of banking business in an agricultural centre, for the Lincoln bank, in seeking an assurance of support in the event of need, indicated that it was not likely to have bills for re-discount. The London bankers accordingly agreed to accept the only security likely to be available. "It accords more with our custom in business", ran their letter, "to discount bills than to make advances upon deposit of deeds, but in case of necessity the deeds . . . would answer every purpose." Typical of the activities of the district were the first two loans granted by the bank, the one to a maltster and the other to a currier. Interest rates were on a rather lower scale than in Leicester; on credit current accounts two per cent was allowed, and four per cent was charged on overdrafts, deposits receiving two per cent if left for three months or longer. As in the neighbouring bank, two directors acted with the manager in conducting day-to-day business. Profiting from the experience of banks in other rural areas, a meeting of shareholders held a few months after the bank had opened approved the establishment of branches, and within a short time the bank was represented by its own offices at Louth, Gainsborough, Horncastle and Brigg, while weekly attendance was arranged at the markets of Spilsby, Market Rasen and Caistor. It was decided not to open at Grimsby, which, although only thirty miles away, was regarded as too far distant from the parent office.

<sup>(1)</sup> *Lincolnshire Chronicle and General Advertiser*, April 19, 1833.

<sup>(2)</sup> His co-directors were: Samuel Solly, William Newton, grazier, Henry Williams, and George Steel, merchant and alderman of Lincoln. Richard Mason, who had played so large a part in founding the bank, was appointed solicitor, but in 1834 he joined the board.

At the meeting of shareholders a year after the opening of the bank the directors expressed their satisfaction with the progress made, which permitted a dividend of six per cent. "A success has attended the company's affairs", they declared, "far beyond what might have been reasonably expected." This, moreover, notwithstanding "the difficulties the Bank has had to encounter at its outset—not only has it had to contend with old-established firms of the highest character and respectability, and which for years had engrossed the almost entire banking business of this City as well as the northern part of the County, but it has further had to contend with a rival bank of a nature similar to its own which in every town where this company have set up branch banks and agencies have met it in opposition."<sup>(1)</sup> It has also had to contend with those doubts, fears, jealousies and prejudices which will always affect the public mind in relation to establishments of a novel description such as joint stock banks . . . even now are." The modest success of the bank may be judged from the balance sheet for June 1835, which showed that deposits had surpassed £70,000. Unhappily it is impossible to state the amount of the bank's note liabilities, but the fact that "debtors in ledger" amounted to nearly £100,000 is evidence that even at this early stage the bank was lending far more than the amounts placed with it by customers. It would be a mistake to regard this relationship as typifying the conditions of the county, for in fact £30,000 of the "debtors" consisted of advances to a bank in Bradford. Yet it probably accounted in part for a decision to double the paid-up capital by a call of £10 per share, though a powerful additional reason for the step, as recorded by the directors, lay in the wide disparity between the nominal and paid-up capital. During the next two years ample use was found for all available funds. In 1839 the rivalry of the Hull Banking Company was suddenly withdrawn, following a run on its Lincolnshire branches, and much of the business fell to the Lincoln bank. The same year saw the acquisition of more suitable head office premises in High Street, near the Stonebow. By this time, seven years after opening, the bank was paying a regular dividend of ten per cent, had formed the nucleus of a guarantee fund, and reported deposits exceeding £200,000.

Both the Lincoln and Leicester banks, however, were shortly

<sup>(1)</sup> This was the Hull Banking Company, which was shortly to pay heavily for its incursion into north Lincolnshire, see page 210.

to meet a testing period of adversity. In Leicester a rapid expansion of trade promoted the development of unhealthy financial conditions among some of the larger firms, and in April 1843 a sharp run forced a private bank, Clarke, Mitchell, Philips and Smith, to suspend payments. The bank had four branches in other towns and extensive connections both in the hosiery trade and in agriculture. Its failure was therefore followed by difficulties in paying the wages of stocking-makers and by general excitement and distress. To make matters worse, the Market Harborough firm of Inkersole and Goddard, which carried on an ironmongery business as well as banking, collapsed two days after the Leicester failure. Both banks were found to be in a weak condition, and a proposal to resuscitate Clarke and Co. as a joint stock bank was seen to be hopeless, though supported by influential names. The liabilities of the firm were estimated to exceed £620,000, while those of Inkersole and Goddard were more than £190,000, so that the amount of working capital frozen by the failures was considerable.

The sole remaining private bank in Leicester, Pagets, along with the two joint stock banks, came through the local crisis without disaster, and with substantial additions to their business. The Leicestershire Banking Company reported an increase in deposits from £306,000 to £412,000 during 1843, while notes in circulation rose from £48,000 to £82,000. The increase in business both at Market Harborough and Melton Mowbray was sufficient to make new premises essential in both places, and the problem was solved in Market Harborough by acquiring the bank house formerly occupied by Inkersole and Goddard. The expanding volume of the bank's activities was maintained, notwithstanding the incursion into Leicester of a powerful competitor in no less fearsome form than a branch of the Bank of England, opened on January 1, 1844. By this time, however, most of the coveted note circulation had fallen into the hands of the local joint stock banks, and this last venture of the Bank of England in the establishment of branches proved so unprofitable that the step was retraced in 1872.

The Lincoln bank's difficulties in the early 'forties resulted from a long period of falling agricultural prices, translated into general depression. The reports for 1842 and 1843 speak of bad debts which, while not sufficiently large to diminish the guarantee fund,

necessitated a fall in dividend payments to five per cent and a reduction to two per cent in the rates allowed on deposit and current accounts.<sup>(1)</sup> It was at this period, too, that new rules governing the conduct of managers were introduced. In the early years of the bank the directors had made arrangements to grant loans to managers "who have pursuits in business separate and apart from the bank and find a banking account indispensable and very naturally keep it with their own bank". There were evident dangers in such arrangements, for not only was it difficult to ensure that overdraft limits were strictly observed, but shareholders and customers complained of competition in their own trades from bank officials. A sharp conflict of this sort arose out of extensive dealings in the corn trade by one of the bank's managers, who added to his indiscretion by treating the remonstrance of the directors with "flippancy and disrespect". Eventually this conduct brought about his dismissal, but not before his speculations in produce had added to the bank's losses at this period. It was plain that service conditions admitting of divided interest could not safely be permitted to continue, and in 1843 a minute was passed requiring managers to devote themselves exclusively to the business of the bank.

Evidently by the time of the Act of 1844 both the banks here considered had definitely established themselves, in face of varied obstacles, as indispensable parts of the business machinery of their respective areas. The immediate effects of the Act on the position of each were, however, quite different. The Lincoln and Lindsey Bank, while regretting the "inconvenience and diminution of that source of profit derived from the issue of notes", accepted philosophically an authorized issue of approximately £52,000, and took cold comfort from "the removal . . . of several difficulties and anomalies in the law of partnership . . . and the recognition by Parliament of the claims of joint stock banks to be considered and dealt with on the same general principles as private banks, and to possess the same privileges and to be subject only to the same restrictions and liabilities". By contrast, the Leicestershire Banking Company was one of the few to enjoy generous treatment under the Act. As a result of local banking troubles during the previous year, the bank's note

<sup>(1)</sup> In 1836 the rates had been adjusted from the original scale, "by arrangement with . . . Smith Ellison's Bank", to an allowance of 2½ per cent and a charge of five per cent.

circulation was abnormally high in the early months of 1844, which included the weeks arbitrarily selected as the legal basis for computing future issues. Consequently the statutory maximum for the bank was fixed at the relatively large sum of £86,060, an amount nearly twice as high as the average before 1843.<sup>(1)</sup> It is not surprising that twelve years later, when rumours of new legislation were current, the directors expressed their willingness "to unite in any organized plan for resisting interference with the present circulation".

The Leicester figure indicates the position that joint stock banking had already won in that area, for the sole remaining private bank in the town received an issue of but £32,000, and Middletons of Loughborough only £7,000. The position in Lincoln was not so strikingly favourable to the joint stock bank, for, while Hardy and Co. of Grantham were accorded an issue of £30,000, and Gee and Co. of Boston as little as £15,000, the authorized issue of Smith, Ellison and Co., the original private bank of Lincoln and district, was placed at over £100,000, while a south Lincolnshire private bank was accorded £75,000. The comparison bears witness to the fact that the joint stock system was advancing more rapidly in districts of industrial development than in agricultural areas, and this is confirmed by the balance sheet figures of the two banks. In 1845 the Leicestershire Banking Company capitalized undistributed profits by transferring £22,600 from the reserve fund to pay up a further £5 on each share, making them £20 paid up, and, with a paid-up capital of £90,400, deposits amounted to nearly £500,000. The Lincoln bank, on the other hand, against a paid-up capital of £76,720, recorded a fall in deposits to only £141,000.

The Lincoln bank, in fact, was still climbing out of the difficulties of earlier years, though the rate of progress was now beginning to increase, and dividend payments had risen to eight per cent. In 1845 the bank was able to provide facilities for the construction of the Sheffield and Grimsby Railway, while about the same time it began the issue of post bills at seven days on London. By 1847 deposits once again exceeded £200,000, and dividends were restored to ten per cent, but the recovery proved short-lived. In the preceding year the directors had complained of "protracted stagnation in commercial transactions [arising] out of the

<sup>(1)</sup> Contrast the opposite experience of the North and South Wales Bank, for example, page 182.

uncertainty which during several months hung over the government measures touching the importation of corn and other articles of commerce". The crisis of 1847 did not directly affect the bank, for, it was reported, "they found money plentiful during the periods [of financial pressure], which may probably be ascribed chiefly to the high prices which agriculturalists have been able to realize for their stock and produce. In short the year has been a prosperous one to the Bank". Far more serious than the transitory crisis, however, were the uncertainties resulting from the new fiscal conditions. The laws against the import of meat and wheat had been repealed in 1846, and agriculture was now exposed to the potentialities of competition from abroad. As it happened, the change was of little consequence for some years to come; not for a quarter-of-a-century did the cultivation of vast areas overseas, together with improved methods of transport and refrigeration, combine to bring British farming into grave and long-standing difficulty. Nevertheless, fears of the consequences of throwing open British ports to overseas products were sufficient to induce hesitancy and for some time depression.

Added to this external adversity were troubles within the bank. In 1848 a branch manager's defalcations, amounting in themselves to more than £10,000, led to an immediate decline in deposits. A call of £20 was made on each £200 share, raising the paid-up capital to £99,000, the reasons given for this step being "the extension of the business" and the legal impossibility of adding to the bank's resources by expanding the note issue. The association of the two occurrences, however, seems evident from the fact that when, after five years, the loss had been written off out of profits, one-half of the newly-raised capital was paid back in cash to the shareholders, while the balance was transferred to the guarantee fund. By this time conditions for the profitable operation of the bank were becoming less favourable. "The large surplus funds", the directors declared in 1853, "have been caused no doubt partly by the depression which has prevailed in this neighbourhood at least in commercial and agricultural pursuits (for want in fact of a remunerative employment of capital) and partly from the increased and increasing confidence of the public in the Bank as a safe depository for money." After the repayment the paid-up capital stood at £77,000 and the guarantee fund at £23,000; meanwhile deposits had grown to exceed £300,000, and dividend payments,

despite the difficult conditions, had risen once again to ten per cent. By 1855 the annual reports spoke of "revived activity and prosperity in the pursuits of our agricultural friends, and of those engaged in trade and commerce". The early years of free trade, contrary to the fears entertained at its inauguration, proved to be prosperous times for British farming. The general rise in prices, attributable to totally unconnected causes, is shown in the records of the bank; in 1854 and for the four succeeding years a gratuity of ten per cent was paid upon salaries "in consequence of the very advanced price of all the necessaries of life". As a result of restored prosperity the bank was in a strong position to meet the crisis of 1857 without being "to any great extent affected", but the ensuing depression was accompanied by banking losses, attributed mainly to the neglect by managers of instructions from the board. Three years later the bank was set upon a course of steadily improving results.

The progress of the Leicestershire bank towards an established place in the business life of its locality was equally chequered, yet different in many respects, for, whereas the Lincoln was a predominantly agricultural bank, the Leicestershire's business was more evenly balanced between agriculture and a rapidly developing variety of industries. The crisis of 1847 brought a severe curtailment of profits due to the necessity of increased holdings of cash and contraction of discounts and advances, but the setback was soon overcome. Subsequent annual reports contain references to healthy prosperity due to "the improved condition of agriculture and general increase of the manufacturing trade". The upward movement was reflected in 1854 in a bonus of five per cent on staff salaries, granted in accordance with a suggestion made by shareholders at the general meeting. Further, substantial additions were made to paid-up capital out of surplus profits. In all, by 1858 £10 10s. per share had been added by this means to the amount of £19 10s. called on each share, making them £30 paid up and raising the capital to £150,000. A branch had been established at Kettering in 1856 "in consequence of the increased facility of access by the opening of the railway and the probability of the introduction of a London joint stock bank". A year later the bank reported that, in spite of the high rates for money, it "had met the requirements of the trading community without increasing (except for a very short period) the rate of

discount to old and valued connexions beyond five per cent". Once again, the bank passed through the crisis with but little disturbance, gaining ground, if anything, from the failures among private banks. Thus the collapse of Gotch and Sons, private bankers at Kettering, brought business to the recently opened branch in that town. True, the report for 1858 speaks of depressed trade, with "banking operations in this town much restricted", but no losses comparable to those of the Lincoln bank were suffered, and within a year or two the old tone of confidence was restored.

The reasons for this continuous prosperity lay in the great expansion of the hosiery trade. New inventions and improvements in machinery had been applied so generally as to bring about a second phase of the industrial revolution; the outwork system was giving way to the small factory, and power-looms worked by steam were replacing hand labour. Nearly all the new machinery was built locally, and engineering shops were enjoying great activity. Thus it was that the population of the county increased from 197,000 to 269,000 between 1831 and 1871, and that of Leicester itself from 41,000 to 96,000. There was, however, another side to the story of industrial progress. The march of invention again gave rise to acute problems of labour displacement and readjustment; the miseries of the stockingers in the early part of the century were repeated, and the references to prosperity in the minute books of the bank are interspersed by records of contributions to funds for the relief of the destitute poor in Leicester, Ashby-de-la-Zouch and Hinckley.

Increased business led to two further calls on the shares of the Leicestershire bank, each of £5, in 1865 and 1872, bringing the paid-up capital to £225,000. At that time deposits exceeded £1 million, and the reserve fund amounted to £72,000. So rapid was the expansion that a complete reconstruction of the head office was undertaken in 1873, while a new branch had been opened at Swadlincote in 1865, "as the mineral products of the district and manufactures are very considerable". A negative sign of stability is provided by the complete absence from the records of any difficulties experienced during the crisis of 1866.

During this period both industry and agriculture were prospering together, so that the Lincoln bank too was making steady progress. "Vigorous trade" increased its operations, and enabled it to pass



through the crisis of 1866 without strain, though not without anxiety. At the peak of the panic pronounced hoarding was evident throughout the county, and in order to meet the requirements of the various local markets every shilling of spare cash was passed round from branch to branch. The method proved efficacious, and the bank escaped from the difficulties unharmed. By 1869 deposits exceeded £500,000, and the paid-up capital had been increased to £87,500. Moreover, the concentration of the bank's interests in agriculture was undergoing modification. The manufacture of agricultural machinery was becoming important in Lincoln, while the mining of iron ore in the northern part of the county was rapidly developing. "Lincoln" said the directors in 1873, "is now attaining a position of considerable business importance and Lindsey with its ironstone discoveries and extending railways, is opening new fields for enterprise." These developments, added to the prosperous conditions in agriculture, gave to the business of the local bank a buoyancy more often found in the history of industrial banks than those closely concerned with rural activities. The opportunity of developing a northward branch system was for the time being set aside, but some southward extension was accomplished when in 1874 Thomas Gee and Co., the old-established bankers of Boston, suspended payment with liabilities of £150,000. The Lincoln bank took over the premises of the firm, appointing as manager Thomas Wise, a partner in Gee and Co. at the time of dissolution, and there is little doubt that the joint stock bank fell heir to most of the good business of the century-old bank.

The early contrast between the experiences of the Lincolnshire and the Leicestershire banks, operating in neighbouring areas of widely different economic characteristics, was thus becoming less pronounced as business development advanced. By the early 'seventies both could rank as well-established country banks, which had profited from their experiences both in industry and agriculture. From this stage the contrast will be drawn with an entirely new bank, founded under pressure of industrial growth and concerning itself predominantly with the business of an industrial centre. In previous pages reference has been made to the early development of the lace and hosiery trades of Nottingham. After a short lapse from favour, the lace trade entered upon a period of rapid extension with the introduction of machinery and

expansion of demand fostered by the Victorian love of ornate decoration. Machinery for both the lace and hosiery trades was manufactured locally, so that engineering too enjoyed a spell of great activity. Between 1831 and 1871 the population of Nottinghamshire rose from 225,000 to 320,000 persons, while Nottingham itself grew far more rapidly, from 51,000 to 88,000.

The old-established banks of the town, mainly private firms, made every effort to keep pace with the industrial development, but by 1865 it had become evident that existing facilities were inadequate. A new banking project was put forward by Thomas Adams, head of a large lace manufacturing concern, who had shown himself a pioneer in business organization by his early application of the company principle to his own trade. Enlisting the co-operation of a group of Nottingham manufacturers, Adams placed himself at the head of a curiously constituted provisional committee. It consisted of nine men, of whom six were of Nottingham and engaged mainly in the lace trade,<sup>(1)</sup> while the remaining three were directors of joint stock banks in Birmingham.<sup>(2)</sup> The association with Birmingham was further strengthened by the arrangement under which the prospectus of the new bank at Nottingham was issued by the Birmingham Financial Company Limited, which had already been concerned in the conversion of Adams's business into a joint stock company. Thus the participation of Nottingham banking in the limited liability boom that characterized the period seems to have been largely inspired from Birmingham. The prospectus advertised the project as the Nottingham Joint Stock Bank Limited, with a nominal capital of £1 million in shares of £50, of which not more than £25 per share was to be called. The document spoke of the great increase in the trade and population of Nottingham during the previous thirty years, a period in which "it has long occasioned surprise that no additional Banking accommodation has been provided to develop the resources of this important seat of the manufacturing industry". Reference was made to the practical convenience in banking of the principle of limited liability. The proposal was well received, and by September 1, when the doors

<sup>(1)</sup> They were: Thomas Adams (of T. Adams and Co. Ltd., lace manufacturers) chairman, Thomas Bayley, Arthur Wells, clerk of the Peace, Abraham Tolley (of Tolley and Mitchell, silk throwsters), Stephen Wills, lace manufacturer, and Thomas Riste, lace merchant. They were also the first directors of the bank.

<sup>(2)</sup> They were: C. H. Wagner and R. Fletcher, directors of the Birmingham Joint Stock Bank, and E. Gwyther, director of the Birmingham, Town and District Bank.

opened for business in premises in Low Pavement, Nottingham, the shares were quoted at a premium. It cannot be doubted that this immediate success was largely due to the personal influence of the chairman, Thomas Adams, which brought many large accounts to the bank. But the participation of Birmingham must also have been an important factor, for examination of the first list of shareholders reveals that approximately two-thirds of the total number were drawn from the Birmingham district.<sup>(1)</sup>

The Nottingham Joint Stock Bank, being without right of note issue, set out to attract business by offering generous rates, and showed a worthy intention of seeking the small account. It advertised that deposits of £1 and upwards would be accepted, bearing interest at 3 per cent and repayable without notice. The connection with Birmingham was maintained, for, although the three Birmingham members of the provisional committee were prevented by the rules of their own banks from accepting seats on the board, they agreed to act as a consultative committee, and were so appointed by the general wish of the Nottingham directors. Hardly had the bank been established when negotiations began for amalgamation with two private banks and one of the early joint stock banks. None of these proposals matured, and the new bank quickly established itself. A site for permanent premises was acquired in Victoria Street; a branch was opened at Ilkeston; and in December 1865, after only four months of active life, the directors were able to publish a balance sheet showing that deposits had reached £150,000 and that profits permitted a dividend of five per cent on the paid-up capital of £69,000.

Unhappily, the foundations of the bank were shortly discovered to be none too secure. Within a year the volume of business became embarrassingly large, and, notwithstanding the provision of £10,000 of new capital by a call on the shares, the amount of re-discounts with London began to reach dangerous proportions. It was in this ill-prepared condition that the bank was called upon to face the strain of the Overend, Gurney crisis, a strain rendered all the more severe by the failure of the English Joint Stock Bank Limited, the Nottingham branch of which had formerly held a high place as an old private banking firm. The only course open to the

<sup>(1)</sup> With the passage of years this characteristic became much less marked. Thus by 1882 less than one-fifth of the number of shareholders were from the Birmingham district.

new bank was to seek additional support from its London agents, and within a few days re-discounts and direct borrowings in London amounted to £200,000, no less than the entire amount of the deposits entrusted to the bank by its customers. At this figure the London agent called a halt, but the generous assistance had served its purpose, and the Nottingham bank came through the crisis with no external evidence of trouble. Indeed, by the "acquisition of a considerable portion of the business of the Nottingham branch of the English Joint Stock Bank" the bank had gained many new customers. When the crisis had abated it was seen that there was still need for additional resources, and the bank, having recovered from the shock of earlier months, applied to the Bank of England at Leicester for a discount account. The request was refused, but the Nottingham bank eventually found a willing lender in one of the Scottish banks with a London office—a by no means unusual source of additional funds at this period.<sup>(1)</sup>

Even so, the early difficulties of the bank were not yet over. Trade depression followed the crisis, and the bank, still hampered by lack of capital resources, was accused of unwillingness to meet the legitimate requirements of its customers, and even of harshness in its mode of business. "The Banking Interest" said a local newspaper,<sup>(2)</sup> "has become so powerful in this country and . . . acts with so much tyranny, indiscretion and caprice, that it naturally enough attracts a good deal of attention to itself . . . To many men Banks are the greatest Bugbears in existence. They seem to have indefinite and irresponsible power and to hold all the threads of commercial life and death in their hands . . . and to avail themselves, rather too often we are informed, of the special information they obtain in order to work out a special ruin." The directors of the Nottingham Joint Stock Bank took these accusations seriously to heart, actually bringing a suit, afterwards withdrawn, against the proprietors of the newspaper; but the attack, if attack it was, does not seem to have damaged the bank. Nor could it fairly be charged with indifference to the commercial needs of the district. The directors were constantly pressing their London agents for an increase in the loan and discount accounts of the bank, and even gave the title deeds of the Nottingham premises, together with their personal guarantees, as

<sup>(1)</sup> See page 134.

<sup>(2)</sup> *Nottingham Journal*, March 12, 1867.

security for an increased limit. To add to their troubles, the general manager was made bankrupt in 1868, following upon "unfortunate investments", while a year later it was discovered that the Ilkeston agent had fraudulently converted bank funds to his own use.

The Nottingham bank's long period of trial could hardly be thought of as ended until a full ten years had elapsed. In 1875 new premises in Victoria Street had been occupied and a branch opened at Grantham. In this comparatively strong position the bank was able to survive without undue losses the quietude of trade that followed the events of 1878, the only visible sign of depression being a reduction in the rate of dividend. Recovery, moreover, was so swift and complete that four years later the bank declared a dividend of ten per cent, the highest in its history, and a rate which thereafter was maintained without interruption. A reserve fund of £39,000 had been accumulated, while the bank then operated through ten branches and sub-branches, reporting totals of £731,000 for deposits and £644,000 for loans and bills. Incidentally, it was only after 1878 that the figure for loans and bills fell below the total for deposits.

As in Nottingham, so in Leicester the banks felt the repercussions of financial crises. The late 'seventies brought the failure of an old-established private bank, losses to the more stable joint stock banks, and, as in most parts of the provinces, the general adoption of limited liability form. Towards the end of 1874 the Leicestershire Banking Company, then taking a prominent part in the growing activity of the area, moved into more spacious premises erected on the old site in Granby Street.<sup>(1)</sup> A branch was opened in the same year at Nuneaton in premises "formerly occupied as a bank by Messrs. Cradock and Bull". A far more important step was taken four years later, when the business of Middleton and Co., private bankers at Loughborough, was absorbed.

The records of this firm, covering the eighty years of its life, are exceptionally informative. Throughout its long story it remained largely in the hands of the Middleton family, and by the 'fifties the total liabilities varied between £120,000 and £150,000; but the "capital", divided equally between three partners, was only about £5,000. During the thirty years from 1850 the annual

<sup>(1)</sup> Now the principal Leicester branch of the Midland Bank.

profits were usually over £2,000, roughly forty per cent on the capital in the firm, and year by year the partners drew out practically the whole of their gains. The retirement of one of the partners in 1863 reduced the capital to £3,000, but the remaining partners continued to draw profits at the old high level. For a time the long-standing reputation and business goodwill of the firm proved capable of supporting these heavy withdrawals, but at length they seemed likely to imperil the safety of the firm. In 1873, for example, after a distribution of over £6,000, the capital was as small as £1,120, at a time when liabilities amounted to approximately £170,000. From this low level there was only a slow recovery to about £4,000 four years later, and subsequent events proved that this was in fact little more than a book entry. Even so, the bank might well have continued for several years without disaster had not the partnership been brought to an abrupt conclusion by the death, in August 1878, of the senior partner. The junior partner, Edward William Cradock Middleton, who had had no hand whatever in the bank's affairs, was left in sole control. It was discovered that the senior partner had already approached a joint stock bank for fusion, and almost immediately these negotiations were resumed, only to break down in consequence of the misleading method of book-keeping of the old firm and the complexity of the deceased partner's will. A cursory examination of the bank's accounts had shown some slight grounds for suspecting a deficiency, and the surviving partner, accepting in his ignorance the disparaging valuation of a prospective purchaser, seems to have become convinced that his bank was hopelessly insolvent. In desperation, acting again on distorted advice, he suddenly closed the doors of the bank, notwithstanding that there were ample funds available, that the London agents were willing, even anxious, to give assistance, and that many friends would have come to the aid of the firm in case of need. Little wonder that so unexpected a suspension was followed by a "paroxysm of general panic and excitement"<sup>(1)</sup> in the town.

At the time of suspension the firm's liabilities amounted to £217,000, of which £7,000 was in the form of notes in circulation, while the assets reached a total of £223,000. The apparent surplus of £6,000 was sadly reduced by the evil effects of failure, but even

<sup>(1)</sup> *Leicester Chronicle and Mercury*, August 10, 1878.

so it was estimated some time later that the deficiency would amount at most to £10,000, and this was covered three times over by the private estate of the late partner. In the words of a member of the firm which acted as the bank's London agents, one "could not possibly imagine what possibly could have been the cause of the failure". At first it was hoped to resuscitate the bank as a limited company, but Loughborough was scarcely large enough to support a separate joint stock bank, and in any event confidence had been lost beyond recapture. Thus the trustees of the estate were more than willing to look favourably upon propositions for purchase of the business. The Leicestershire bank saw the opportunity of obtaining an excellent introduction to the town, and promptly offered £6,000 for the premises and goodwill, agreeing to take over all accounts and to lend the trustees sufficient to pay an immediate dividend of ten shillings in the pound to creditors. The offer was accepted, and in this way the Leicestershire bank broadened its field and obtained a valuable addition to its business.

Later in the same year the crisis in Scotland swept southward, and the Leicestershire bank, though "in no way a sufferer through the late disastrous banking failures which have taken place in Scotland and in this country", did not escape altogether unscathed. In the report for 1879 it was stated that the "severe and long continued depression in trade, together with bad harvests" had diminished profits and brought exceptional losses, though it was possible to provide for these without drawing upon the reserve fund, then amounting to £100,000. In association with other banks of the district, the Leicestershire bank registered as a limited liability company in 1880, seizing the opportunity to increase its paid-up capital from £300,000 to £400,000. Thereafter the branch system was slowly extended, reaching to Peterborough and Grantham in 1883 and to Northampton, Wellingborough and Burton six years later. Now, however, the reasons for opening branches were becoming mixed. The bank was feeling competition through branch expansion by rival institutions, and sometimes was obliged to protect itself by invading the areas of other banks. "I have always advocated these extensions", wrote the chairman of the bank in a letter to his co-directors in November 1889, "not only with a view to increase the business of the bank but to prevent as far as possible the aggression some

other banks are trying to make upon our branches". The result of this policy is to be seen in the rising total of deposits, which in 1891 exceeded £2 millions.

In marked contrast with the upward trend in Leicestershire and Nottinghamshire, the position in Lincolnshire had become almost static. By the 'seventies English farming was experiencing, after long delay due to a variety of causes, the full force of competition from overseas food supplies. Prices declined almost continuously, and it was not long before farming in England had been reduced to a level of seemingly unrelieved depression. Such were the conditions surrounding the Lincoln and Lindsey Bank; though it was scarcely affected by the crisis of 1878, it was feeling the pressure of a more deep-seated change. True, the population of Lincolnshire was still increasing, though more slowly than in the other counties. But the growth was confined to a few towns, notably Lincoln and Grimsby; the population in the remainder of the county steadily declined from 1871 until the end of the century. Reflecting these conditions, the deposits of the Lincoln and Lindsey Bank remained between £600,000 and £700,000 for fourteen years from 1874, while dividend and bonus distributions declined from over twenty per cent to sixteen per cent. The bank did not establish branches in the rapidly growing iron-mining centres of the county, but a small step forward was achieved in 1879, when the business of the Nottingham and Nottinghamshire Bank at Gainsborough was bought for £1,250. That year, however, was conspicuous for its bad harvest, and the directors observed in 1880 that "the shareholders well understand how much the success of the company depends upon the success of agriculture, and they also well know how much that interest has suffered for some time past from adverse seasons and from a succession of deficient harvests". By 1882 the directors were scrutinizing the margins on loans against property because of "the difficulty now experienced in selling lands, and extremely low prices obtained", and during the succeeding seven years a total of £40,000 was transferred from reserves to meet losses, leaving the reserve fund at £137,000. Despite these adverse conditions, the bank maintained an undiminished prestige; indeed, after 1887 the amount of deposits slowly but surely increased, rising from £675,000 in that year to just over £1 million ten years later. This was a comparatively slow rate



of progress, but none the less a considerable achievement in the circumstances of the time. In part it was due to a late extension of the bank into Grimsby in 1892, where the branch, after eight years, was described by the directors as having become "one of the most important branches of the bank". There can be little doubt that this belated entry into the rapidly developing fishing port brought a much-needed increase in the size and variety of the bank's business. The bank, though it adopted limited liability form in 1880, quite naturally did not take the opportunity of increasing its capital.

Meanwhile the Leicestershire Banking Company had made a notable extension into Lincolnshire. The continuous expansion in the industries of Leicester now embraced not only the hosiery and allied trades, but also boot- and shoe-making, which in the 'sixties and 'seventies was being transformed from a domestic to a factory industry. In the twenty years from 1871 the population of the town of Leicester rose from 96,000 to 150,000. The Leicestershire bank, closely concerned as it was in promoting this development, found a demand for accommodation that urgently called for a means of increasing the available resources. This, perhaps more than anything else, was responsible for a striking extension when, in 1895, the business of Hardy and Co., of Grantham, was acquired. Right from the beginning of the nineteenth century this old banking partnership had stood firm, growing steadily with the town of Grantham and relying largely upon an extensive business in the agricultural area of south Lincolnshire. In 1848 a rival private bank, Kewney and King, had fallen victim to the crisis, adding to Hardy's share of the business of the neighbourhood. It is evident from the scanty records available that throughout the hold of the Hardy family upon the business was strong; as late as 1859, for example, John Hardy, the senior partner, held the whole of the capital, amounting to £40,000.

For an unusually long period the firm withstood competition from branches of joint stock banks, but gradually it found itself at an ever-increasing disadvantage, particularly marked in Lincolnshire, where there was little to counterbalance the deepening depression in agriculture. Quite apart from general causes, moreover, the Grantham firm towards the end of the century was experiencing particular changes that sapped its powers of resistance.

In 1883 the death of the last John Hardy deprived the partnership of a notable banker of his district and period. Further, a few years later the bank met with the misfortune of a heavy loss in a local plaster company, which reduced the partners' capital by £20,000. It was in these circumstances that, early in 1895, Hardy's bank decided to invite the Leicestershire Banking Company, as a local joint stock bank that had established a branch in Grantham twelve years previously, to make an offer for absorption. The capital of the firm was then £70,000, deposits can be estimated at between £300,000 and £400,000, and the note issue was fixed at £30,000,<sup>(1)</sup> while profits were averaging more than £9,000 a year. The price agreed upon in rapidly concluded negotiations was £145,000, part of which was paid in shares of the Leicestershire bank. One of the partners became a director of the joint stock bank, while the other remained as branch manager at Grantham. When the transfer was completed, the paid-up capital of the joint stock bank amounted to £440,000, with a reserve of £182,000 and deposits of £2,617,000.

For a time the pressure upon the Leicestershire bank was relieved by this accession of liquid resources, but the long-standing difficulty of insufficient deposits for lending soon reasserted itself. The pace of industrial expansion was unabated, while the process of concentration, both in the hosiery and the boot and shoe industries, was developing large business units whose demands in respect of banking facilities surpassed the capacities of banks confined to relatively small areas. It was inevitable, then, that the Leicestershire Banking Company should be impelled to consider the advisability of union with a larger bank, and natural that its thoughts should turn to the Midland, which had opened a branch in Leicester in 1889 and had by now become firmly entrenched in London. The Midland, although it had originated in Birmingham, had no more than a slight foothold in the east midland counties, and was therefore more than willing to consider amalgamation with a well-established local bank. The early approaches, in March 1900, were facilitated by a personal link between the two banks, the chairman of the Leicestershire bank, H. Simpson Gee, having been for many years a shareholder in the Midland and also the City Bank,<sup>(2)</sup> and within four months the terms of

<sup>(1)</sup> It is perhaps worthy of record that a bank note for £10 issued by Hardy, Turner and Walkington at Grantham, and dated April 28, 1827, was paid by the Midland Bank on December 15, 1933.

<sup>(2)</sup> Taken over by the Midland Bank in 1898. See chapter X.

amalgamation were arranged.<sup>(1)</sup> The Leicestershire Banking Company's last balance sheet, for December 1899, showed paid-up capital of £440,000 and a reserve of £210,000. Operating through twenty-seven branches, the bank controlled £3,285,000 of deposits, while loans and bills amounted to £3,243,627—a relationship clearly indicating the forces making for absorption. "Our business", said the Leicestershire bank's chairman at the amalgamation meeting,<sup>(2)</sup> "has increased each year, and while our deposits have increased very largely, yet our lending business increases faster, so that we have now arrived at the position that we must either refuse new business, however good, or increase our resources." The directors of the local bank continued to serve as an advisory committee, while the chairman was elected to the board of the London bank.

It was not long before the management of the Midland was seeking a means of bridging the gap between its newly-acquired Leicestershire connection and its stronghold in Yorkshire. Between them stood the "corridor" county of Nottinghamshire, where, apart from a branch opened in the principal town in 1896, the bank was without direct representation. Almost at once negotiations were begun for the absorption of the Nottingham Joint Stock Bank—now a branch organization—but this relatively young institution had acquired sufficient independence to refuse the terms offered by the London bank, possibly anticipating that by the simple passage of time the value of its business to a would-be purchaser would increase. Now, however, the forces which had driven the Leicestershire bank into amalgamation began to press hard upon the banks of the neighbouring county. The hosiery and lace manufacturers continued the process of concentration, while Nottingham engineers obtained a world market for the construction of machines connected with these staples. New manufactures, among them pharmaceutical products, bicycles and tobacco, made increasing demands on the available financial facilities. The population of Nottinghamshire rose from 320,000 in 1871 to 515,000 thirty years later, while the figures for the principal town showed a sharp increase, from 87,000 to 111,000.

The Nottingham Joint Stock Bank, though by no means large, moved forward in support of the general expansion.

<sup>(1)</sup> The terms were: seven Midland shares (of £60, with £12 10s. paid up) for twelve Leicestershire bank shares (of £25, with £10 paid up).

<sup>(2)</sup> *Leicester Journal*, August 3, 1900.

The paid-up capital was increased to £150,000 in 1887 and to £200,000 nine years later; deposits exceeded £1 million in 1892 and doubled within ten years. It was becoming more and more evident that the bank, now closely concerned with the new industries, needed greater resources and wider facilities. As with the Leicestershire bank, it sought to attract working funds by branch extension; ten branches had been opened by 1882, and the list lengthened steadily, embracing several "town" offices within Nottingham after 1881. The process, however, was by no means rapid, and occasionally had unexpected consequences. Thus the branch opened at Kettering in 1899, far from being a "feeder" to the central Office, proved to be an active agent for loans, especially in the leather trade, and was therefore sold to the Northamptonshire Union Bank four years after establishment. Finding this means of expansion insufficient for its needs, one final effort was made to withstand the current of amalgamation, which had already caught up in its flow the other principal banks of Nottingham. This took the form of the inauguration of a special savings bank department in 1905. The project, extensively advertised in local newspapers, sought to encourage the small depositor by offering relatively high rates of interest and by reopening for savings bank business after normal banking hours. Once again, the scheme, though not without some success, proved inadequate. Indeed, there was a distressing tendency for ordinary deposits to move to the larger London banks represented in the town. It was at this stage that the Midland Bank, still searching for more suitable representation in Nottingham, decided to build new premises on a site very near to the head office of the Nottingham Joint Stock Bank. Before embarking upon this heavy expenditure, a second and successful approach was made for amalgamation with the local bank. In November 1905 the Nottingham Joint Stock Bank was merged into the Midland.<sup>(1)</sup> By this time the Nottingham bank operated through twenty-eight branches, seven of them in Nottingham, and, with a paid-up capital of £200,000 and reserves of £176,000, controlled £2 millions of deposits, while loans and bills amounted to £1½ millions. The chairman, in his speech at the amalgamation meeting,<sup>(2)</sup> referred to the bank as working "in a circumscribed

<sup>(1)</sup> The terms were: one and one-seventh Midland shares (of £60, with £12 10s. paid up) and £2 cash for two Nottingham Joint Stock Bank shares (of £50, with £10 paid up).

<sup>(2)</sup> *Nottingham Daily Express*, November 24, 1905.

area", and as being thus unable to meet the competition of larger banks with their extensive branch systems. He spoke also of the danger of being dependent upon the state of industry in one area, and the growing public preference for large and strong banks.

The concluding stage of the story of the Lincoln and Lindsey Bank is similar, though it took longer for the forces of integration to bring this agricultural bank into the new consolidated banking structure. The disastrous fall in agricultural prices was arrested after 1895, and the tendency set slightly in the opposite direction. Moreover, in several ways the outlook for British farming towards the end of the century became more promising, and the improvement was reflected in the position of the Lincoln bank. By 1898 dividends had been restored to 18 per cent on its comparatively small paid-up capital of £140,000, while the reserve stood at £225,000; deposits were as high as £1½ millions, and new ground had been broken by the opening of a branch at Spalding. It was not long, however, before the bank began to suffer once more from adversity arising externally. The decline in security prices in the early part of the twentieth century weighed heavily upon a bank with a high proportion of its funds in investments. During the decade from 1903 nearly £80,000 was provided, mainly out of the reserve fund, to write down the value of investments. In consequence the reserve declined to £215,000, and dividend payments were reduced to 17 per cent after 1908. Even so, the reserve was higher than the paid-up capital, which now stood at £163,000, while thereafter deposits increased slowly, to reach £1¾ millions by 1912.

The heavy depreciation in investments had been a serious matter for a small bank, while as the years went by the Lincoln and Lindsey unquestionably felt more and more severely the competition of larger institutions represented in the principal towns. This was evident particularly in Grimsby, where large-scale enterprise in the fishing industry made heavy demands upon financial machinery. The way out of the dilemma was clear. Terms were arranged for amalgamation with the Midland Bank,<sup>(1)</sup> and in June 1913 the identity of the Lincoln bank was merged. The Midland added 31 branches to its system, in an area thus far inadequately covered, and increased its deposits by nearly

<sup>(1)</sup> The terms were: sixteen Midland shares (of £60, with £12 10s. paid up) for three Lincoln and Lindsey Bank shares (of £200, with £70 paid up), and four Midland shares for three Lincoln bank shares (of £50, with £17 10s. paid up).

£2 millions. Thus the expansion of the Midland through the eastern midlands was carried to the coast of the North Sea, spreading its representation throughout three counties exhibiting a wide variety of economic interest. Industries, heavy and light, coal and iron mining, agriculture and fishing added their quota to this fresh accession of business, aiding in the achievement of a stable balance between all branches of activity.

APPENDIX TO CHAPTER VIII

EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

(£,000 omitted)

Name of bank	Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills
<b>LEICESTERSHIRE BANKING COMPANY</b>						
1830 ...	14	—	13	27	13	34†
1840 ...	64	30	41	281	261	132†
1850 ...	100	28	65	555	382	327†
1860 ...	150	29	64	777	547	350†
1870 ...	175	65	50	953	725	259†
1880 ...	300	100	47	1,343	1,099	267
1890 ...	400	164	39	1,953	1,483	449
<b>LINCOLN AND LINDSEY BANKING COMPANY</b>						
1840 ...	55	4	52*	201	258	?
1850 ...	99	9	45	155	258	?
1860 ...	77	36	45	306	370	?
1870 ...	77	54	47	418	498	?
1880 ...	114	152	40	570	688	?
1890 ...	114	139	39	818	702	
1900 ...	140	228	39	1,255	1,201	
1910 ...	163	250	21	1,564	1,010	42
<b>NOTTINGHAM JOINT STOCK BANK</b>						
1870 ...	79	10	nil	472	562†	
1880 ...	100	35	nil	517	474	
1890 ...	150	86	nil	887	764	
1900 ...	200	168	nil	1,944	1,623	

\* Authorized circulation under Act of 1844  
 † Including cash

## CHAPTER IX

### EARLY JOINT STOCK BANKING IN LONDON

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The Birmingham and Midland Bank entered London in 1891 by simultaneous amalgamations with the Central Bank of London and Messrs. Lacy Hartland and Woodbridge, and thereupon changed its name to London and Midland Bank. Seven years later this foothold was strengthened by the absorption of the City Bank, the name then becoming London City and Midland Bank. In 1914 the Metropolitan Bank (of England and Wales) was taken over, and after an interval of four years a final amalgamation with the London Joint Stock Bank took place, the title once again being lengthened to London Joint City and Midland Bank.

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THE history related hitherto has been concerned mainly with the process of coalescence in various parts of the provinces, and has shown how in the later stages each part was drawn into direct association with London, largely by forces operating from without. It is now necessary, in order to complete the story, to follow the progress of London banking, where changes no less striking were taking place, though coalescence was somewhat delayed. Here too, however, pressure was growing in the direction of union between London and country. Attention has been drawn in chapter I to the early origin of banking in London and the pronounced differences between banking methods and structure there and in the provinces. This chapter will be concerned mainly in recounting the story of nineteenth century enterprise in London banking.

London in 1836 was a city showing signs of great changes in many directions besides banking. Boundaries were being extended on all sides, though Chelsea, Hammersmith and Peckham were still described as pleasant villages, beyond which were fields and farm lands. With a population of perhaps one-and-a-half million people, London was already the largest city in the world, and an all-important centre of domestic and overseas trade. Until 1793 the port of London had been without docks, but by now four were available for traffic, of which the largest was opened in 1828, and steam ships were making their appearance. The docks and river made it the principal port of England and a great distributing centre through the canal system. Bulky traffic, such as coal, manufactures and agricultural produce, was mainly water-borne,





and London drew heavily upon the northern and midland coalfields and industrial areas by way of coast and canal. The principal means of land transport was still the horse-drawn vehicle, and over cobbled streets rattled coaches from all parts of the country. Here again, however, evidence was visible of approaching change. The London and Greenwich Railway was nearly ready for opening; the construction of the line to Birmingham was at an advanced stage; and work had begun upon other tracks. Very soon the coaching inn was to give way before the railway station, an event of primary importance to a city dependent upon its activities as a focus of trade for the whole country. For London, then as now, was not a home of large industries, and its direct interest in manufacture, though considerable, was mainly confined to small businesses.

The commercial geography of London was already cast in its modern shape. Lombard Street, Cornhill and Threadneedle Street housed most of the banking, insurance and allied undertakings, while the City generally was given over almost entirely to business premises. Billingsgate, Covent Garden and Smithfield had for long been brisk markets; Spitalfields was a silk manufacturing district; Shoreditch a parish chiefly inhabited by weavers; while the west end contained residences of the nobility and gentry. The old-time banker, who lived for the greater part of the year at his banking house—that man “of serious manners, plain apparel, and steadfast conduct, the rigid observer of formalities . . . an ostensible pattern to society of probity, exactness, frugality and decorum . . . always to be found at his desk”<sup>(1)</sup>—was a vanishing type. His successor lived away from the banking house, and, if the warnings of contemporary writers on etiquette are to be believed, even the banker’s clerk was, like his master, widening the circle of his interests.<sup>(2)</sup> Nevertheless, old-time business hours were observed, and the banks did not close their doors until 5 p.m. Though a few of the principal streets were now lit by gas, most of the offices were illuminated still by candle or oil-lamp.

The process of transformation was accompanied by the inevitable stresses of rapid economic change. Fast-growing trade and

<sup>(1)</sup> As quoted in *London*, edited by Charles Knight, 1843.

<sup>(2)</sup> “The Caledonian Balls are, or used to be, frequented by many superior persons of the middle circle of society. I would not, however, advise your being frequently seen even there, if you are in the habit of meeting superior people; for, although you will meet much good company, it must be confessed that you will also meet a crowd of bankers’ clerks, shop-boys, and that sort of people.” A. F., *The Ladies’ Pocket Book of Etiquette* (1838), reprinted by the Golden Cockerell Press, 1928.

population strained to the utmost organizations that had served well enough for less strenuous days. Many London markets were pressing hard upon cramping boundaries which afforded little or no room for expansion in response to the needs of the time, still less those of the future. The condition of Smithfield offers a typical example. At that time beasts were driven in from outlying districts to be sold to butchers in this great London mart. Early in the century the volume of business, here as in other markets, was sufficient to call into existence specialized banking institutions, and before 1810 three banks were established in West Smithfield, one of which plays a part in this story. Joseph Pocklington, one time member of a firm of meat salesmen in Newgate Market, in partnership with Benjamin W. Lacy, founded a bank in the heart of the Smithfield Market about 1809. A banking house was built at No. 60 West Smithfield, and soon a flourishing business was strongly established, drawn almost entirely from the meat trade.

The manifold changes then taking place in economic life called for the expenditure of large capital sums, and numerous companies were formed in the years to 1836, many of them falling into two principal groups—railway and banking enterprises. In these conditions it was not long before a wave of speculation arose. The list of home ventures lengthened rapidly, while excited investors lent further considerable sums to foreign borrowers. An ominous sign was the growing reliance of the new country joint stock banks upon the practice of re-discounting, for their bills, each "with a thousand indorsers",<sup>(1)</sup> found a ready sale on the London bill market. In 1836 financial stringency in America and in Ireland set up a drain of gold from the Bank of England, and precipitated the collapse of the inflated credit position.

Such were the disturbed and unfavourable conditions into which the London Joint Stock Bank was born, just three months after the Midland Bank in Birmingham. It was the outcome of a series of meetings, the last of which was held on July 13, 1836, at No. 29 Coleman Street, the offices of Messrs. Tilsons, Squance and Tilson, solicitors. The eleven gentlemen there present<sup>(2)</sup> resolved "That a Company be formed to be called The London Joint Stock Bank", and approved the issue of a prospectus to

<sup>(1)</sup> Thus William Clay, in a speech on joint stock banking, 1836, alluded to the joint and several liability of the large memberships of joint stock banks.

<sup>(2)</sup> The names are marked with an asterisk in the first list of directors, on page 280.

be published in newspapers throughout the United Kingdom. The following extracts, reprinted from the original document, reveal the nature and principles of the projected bank:—

## THE LONDON JOINT STOCK BANK.

CAPITAL - - THREE MILLIONS.

In Sixty Thousand Shares of Fifty Pounds each.

### *Directors.*

SIR FELIX BOOTH, Bart.	*SIR JOHN McTAGGART, Bart, M.P.
*WILLIAM MILLER CHRISTY, Esq.	*SIR FRANCIS PALGRAVE
WILLIAM CURLING, Esq.	THOMAS PHILLPOTTS, Esq.
*JOHN PETER DARTHEZ, JUN., Esq.	*JAMES MARMADUKE ROSSITER, Esq.
*GEORGE HOLGATE FOSTER, Esq.	*JOSHUA SCHOLEFIELD, Esq., M.P.
WILLIAM ORMSBY GORE, Esq., M.P.	GEORGE SCHOLEFIELD, Esq.
WILLIAM HUGHES HUGHES, Esq., M.P.	*WILLIAM SHADBOLT, Esq.
JOHN CHRISTOPHER LOCHNER, Esq.	*THOMAS STOOKS, Esq.
WILLIAM MITCALFE, Esq.	GEORGE TAYLER, Esq.
*AMBROSE MOORE, Esq.	*WILLIAM VENABLES, Esq., Ald.

With power to add to their number.

*Manager* - - GEORGE POLLARD, Esq.

For the purpose of enabling the inhabitants of the Metropolitan Districts to participate more extensively than they can at present in the advantages offered by the new system of Banking, by means of Joint Stock Establishments (the principles of which are proved to be in every respect as applicable to the Metropolis as they are to Provincial Towns, where private Banking Establishments are rapidly merging in Joint Stock Banks), it has been resolved, after deliberate consideration, to form a Joint Stock Banking Company, to be called "The London Joint Stock Bank," with a Capital of Three Millions, divided into 60,000 Shares of £50 each.

The Company will transact all the various branches of business legitimately belonging to Banking concerns and to general agency in the Money Market, under the superintendence of a Chairman, Deputy-Chairman, and Board of Directors; and the Funds of the Bank will not be invested in the purchase of Foreign Loans, or Stocks, or Landed Property, Mining, Canal, Railroad, or other shares, or articles of Trade or Commerce.

With the view of effecting a consolidation with some London private Banking firms, a power will be contained in the Deed of Settlement of admitting Members of such Firms into the directorship; and Shares will be reserved for the purpose of facilitating arrangements of that nature. A reserve of Shares will also be made for Country Bankers, the Directors and Proprietors of Joint Stock Banks in the Country who may give to the Company their London agency, and for parties who may hereafter open accounts with the Bank, or have the means of increasing its business.

When it shall be deemed expedient to apply for further powers from the Legislature, or through the medium of a Charter, it is contemplated to make such application.

The Company will be considered as formed as soon as 30,000 Shares shall have been subscribed for, and business will be commenced as soon afterwards as possible.

The sober document draws but little upon the abounding confidence of the year 1836; it is couched in language as restrained as that which announced the proposed formation of the Birmingham and Midland Bank. The high nominal capital of £3 millions is evidence, not only of the larger scale of business in London than in the provinces, but also of the special need in the metropolis to inspire confidence by imposing figures. The list of directors—well-known City men, including four Members of Parliament, two baronets, a knight and an alderman—provided a further ground for appealing to the confidence of the moneyed public. It will be noticed that business was to be extended to the metropolitan districts, and that it was to include “general agency in the Money Market”; that attractive arrangements were held out to secure the London agency of country banks, a promising field of expansion since joint stock banks were rapidly increasing in number and influence throughout the provinces; and that special provisions had been drawn up to simplify and encourage amalgamation with London private banking firms. The prospective manager, George Pollard, was an experienced London banker who had spent many years with Williams Deacon and Co.

The project encountered immediate difficulty. Two years earlier the united efforts of the old London bankers had forced the London and Westminster to seek capital in the provinces, and now the London Joint Stock Bank in turn found it no easy task to dispose of the 30,000 shares required to be issued before business should begin. Indeed, at one stage the directors agreed to form a fund among themselves to take up an anticipated residue of shares, but they were unduly pessimistic, for after a delay of three months the requisite amount was subscribed. A first call of £5 per share was made, premises were secured in Princes Street, and pending their preparation business was begun, on November 21, on the ground-floor of the solicitors' office in Coleman Street.<sup>(1)</sup>

Now came another rebuff. Immediate application was made for permission to send a clerk to the Clearing House to “transact the usual exchange of cheques”, and the request was promptly declined on the ground “that the Clearing House is only established for the convenience of private bankers”. The refusal

<sup>(1)</sup> The premises in Princes Street were expected to be ready, but a circular advised shareholders that “in consequence of the continued wet weather, it might be attended with considerable danger to the health of the clerks in the establishment were they to occupy any portion of these premises”.

could not have been altogether unexpected, for the older London and Westminster Bank had not by this time been admitted to membership—nor indeed had the Bank of England itself. Warned by these early setbacks, the new bank realized that good business would be difficult to acquire unless special inducements were offered. Accordingly, an advertisement sheet was drawn up, placed in the London newspapers and circulated generally in the form of handbills. It set out in the following precise form the novel principles upon which the business of the bank was to be conducted (the italics are the authors') :—

The Directors having opened Temporary Offices as above, are now conducting the business of the Bank on the following principles :

Accounts of Parties properly introduced, are received agreeably to the present custom of London Bankers, with this advantage, that *interest is allowed on Current Accounts, and on Deposits.*

On the first day of every month Interest, at the rate of £2 per cent. per annum, will be allowed on the smallest balance which may appear to the credit of each Account at the close of any day during the preceding month.

Sums of Money received on deposit, at such rate of Interest, and for such periods, as may be agreed upon, reference being had to the state of the Money Market.

Interest at the rate of £2 10s. per cent. per annum, allowed on sums not exceeding £2,000, deposited without special agreement, which may be withdrawn at any time on giving ten days notice.

The Agency of Joint Stock, and other Country and Foreign Banks, undertaken on such terms as may be agreed upon.

Investments in and sales of, all descriptions of British and Foreign Securities, Bullion, Specie, etc., effected. Dividends received, foreign Letters of Credit granted, and every other description of Banking business and Money Agency transacted.

A Bill Committee of the Directors sits daily, from Eleven till One o'clock, to receive Applications for Discounts, which are considered confidential, and promptly decided upon.

The Board of Directors meets weekly, when a full statement of the affairs of the Bank is laid before them.

LONDON, 16th December, 1836.

The advertisement contains several interesting features. First and most important is the offer of interest upon both current and deposit accounts. The distinction between current accounts bearing no interest and deposit accounts at agreed rates had long been known in London banking, but from the beginning of the nineteenth century the allowance of regular interest, even upon ordinary deposit accounts, had been discontinued, and as a general rule no interest was paid by the private bankers or the Bank of England.<sup>(1)</sup> The decision of the London and Westminster

<sup>(1)</sup> In most country districts, on the contrary, it was the practice to pay interest on credit balances.

Bank two years earlier to allow interest upon deposit accounts had created an angry stir, but the proposal of the London Joint Stock Bank to extend the benefit to current accounts constituted a still more definite breach with established practice in London. Further, the fact that the rate of interest was to be fixed, at  $2\frac{1}{2}$  per cent, for a large proportion of the money received imposed a burden which proved to be onerous when, later on, the general level of interest rates declined.

Another feature of the advertisement is the offer of agency accounts, addressed especially to foreign banks. The conduct of these accounts later became an important section of the bank's business. The list of services which the bank was prepared to render covers a surprisingly wide field, while the statement that discount applications would be "considered confidential and promptly decided upon" reflects an endeavour to meet the current criticism of joint stock banking as lacking in privacy and dilatory in method. The whole document threw down a challenge to bankers of the old regime, and gave promise of vigorous competition that could not fail to be distasteful to established forces.

The new departures represented a bold venture, for already the shares of the bank stood at a discount in the market, and at various dates until February 1837 the directors authorized purchases on behalf of the bank to maintain the price "provided that on no account are so many . . . purchased as will reduce the remaining number issued below 30,000". The weakness was probably due to the strain in the money market; certainly it did not arise from any obvious lack of success, for shortly afterwards two additional clerks were appointed, making a total of ten besides the manager, "in consequence of the increase of business", and on May 1 the bank moved into its permanent home in Princes Street.<sup>(1)</sup> A further refinement of service was now brought forward. On the suggestion of the manager an additional convenience to depositors was contrived which, in the words of a subsequent advertisement,

<sup>(1)</sup> The site, which is now occupied by the head office of the Midland Bank, is rich in history. An ancient manor house stood there in Norman times; a debtors' prison and St. Mildred's church occupied parts of it in the fifteenth century; and in 1798 Tom Hood, the poet, was born in one of the houses there. Early in the nineteenth century Poultry Chapel was built, where the famous Dr. Joseph Parker was minister. In 1872, the chapel having been moved to Holborn Viaduct, the premises were bought by the London Joint Stock Bank. See also article in the *National Review*, December 1934, by Charles Pendrill on "An Old London Manor House".

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took the form of offering "bills or promissory notes at six months' date delivered to depositors in lieu of receipts for sums of not less than £100". This was in fact nothing less than an attempt to add the virtue of ready transferability to a fixed balance.

The results of the enterprising policy hitherto pursued were seen in the first set of accounts, presented in December 1837 and reproduced below :—

LIABILITIES AND ASSETS, Nov. 20, 1837.

DR.		CR.	
	£ s. d.		£ s. d.
To capital paid up, being £7 per Share upon 31,080 Shares	217,560 0 0	By Exchequer Bills £206,300 12 6	
Amount due by the Bank, including money taken up on security, and their acceptances at not less than six months' date..	594,101 17 4	India Bonds 10,202 15 0	216,503 7 6
Balance carried to credit of Profit and Loss Account ...	19,553 3 8	Bills discounted, Loans to Customers, and Cash in the Bank...	590,521 19 9
		Building and preliminary expenses, a proportion of which will be written off annually ...	24,189 13 9
	<u>£831,215 1 0</u>		<u>£831,215 1 0</u>

The statement must have been satisfactory to the early shareholders, especially when considered along with the profit and loss account. A dividend of four per cent was paid and a sum of nearly £3,000 allocated to form the nucleus of a reserve fund, then described by the usual title of "guarantee fund". The best possible use of these encouraging results was made by the bank; they were published in full, together with a long report by the directors. "In adverting" they said, "to the convulsed state of the commercial world at the early part of the existence of the Company . . . while much caution was necessarily required, they were always anxious to assist in alleviating the pressure on the mercantile community", adding that they felt "it necessary to

observe, that their object has not been so much large immediate profits as to conduct the business of the Bank on principles so safe as to secure public confidence, which they are perfectly aware is indispensable to the success of the undertaking". Particular reference was made to the payment of interest on current accounts, whereby each customer "becomes a participator of the profits of the concern"—a phrase calculated to make a strong appeal to the commercial reader. The printing and circulation of the report and accounts constituted yet another break with tradition by the London joint stock banks; it was, indeed, far in advance of the practice in the provinces and even in Scotland.

The new institutions were soon in open conflict with the old-established bankers of London. Here is an unusual illustration of the bitterness of the relationship. The National Provincial Bank, then a thriving four-year-old of the provinces, decided in 1837 to support the extension of joint stock banking to London by transferring part of its London agency from a private banking firm to the London Joint Stock Bank. The private bank concerned in this transaction promptly retaliated by dishonouring by non-acceptance the bills of the country bank, thus imperilling the credit of what was already an important institution.<sup>(1)</sup>

But it was on account of their legal position<sup>(2)</sup> that the joint stock banks found themselves most widely open to attack. Not only were they subject to the disabilities common to all joint stock banks, but in London an even more serious obstacle arose from the strict insistence of the Bank of England on the very last letter of its monopoly. The new banks were clearly debarred from all rights of note issue, but, beyond that, a narrow interpretation of the statute prohibited them from accepting bills at less than six months after date. The London and Westminster Bank had already attempted to evade strict application of this rule by various means, but its efforts were frustrated by legal action brought by the Bank of England.<sup>(3)</sup> Very soon the London Joint Stock Bank was drawn into the battle. It had already acquired the London agency of several provincial banks, and had entered into mutual agency arrangements with banks in Canada and the United States. Consequently it was often forced to choose

<sup>(1)</sup> Burgess' Circular to Bankers, January 13, 1837.

<sup>(2)</sup> See chapter I.

<sup>(3)</sup> H. D. McLeod: *Theory and Practice of Banking*, 6th edition, pp. 385-6. See also chapter I.



between refusing the altogether reasonable acceptance of a valued correspondent at, say, 60 days sight or inviting conflict with the Bank of England. The position was intolerable, and to remedy it a simple expedient was adopted—George Pollard, the manager, accepted in his own name bills drawn upon the bank. He was not a co-partner in the bank, nor did he accept as agent for it. The Bank of England, prompt as ever to defend its privileges to the last ditch, brought an action,<sup>(1)</sup> using as instance a bill drawn by a Canadian bank at 60 days sight on the London Joint Stock Bank and accepted by George Pollard. The advocate for the joint stock bank pleaded that the Bank of England was not injured in any way, that whether or no the Bank Act was violated was purely a legal question, and that (this, surely, with his tongue in his cheek!) the company was not liable upon Mr. Pollard's acceptance of the bill. Nevertheless, an injunction was granted restraining the London Joint Stock Bank from continuing the practice. "It is hardly possible", in the words of a contemporary observer,<sup>(2)</sup> "to imagine an instance in which the Bank [of England] would be less likely to carry public opinion with them if they rested their case in any manner on its substantial merits." Nevertheless, the unconscionable prohibition remained in force until 1844.

In spite of all these difficulties of law and vested interest, five joint stock banks were formed in London under the permissive clause in the Act of 1833, and—what is more remarkable—all succeeded in establishing their claims to public confidence. They paid but modest dividends compared with the high returns often received on the shares of provincial banks, but they set aside large sums annually to reserve funds. The deed of settlement of the London Joint Stock Bank required that a guarantee fund should be established as a separate account and credited with interest at the rate of three per cent per annum, and by 1844 the bank, although only eight years old, had built up this fund to £90,000, besides raising the rate of dividend to six per cent. With a capital of £600,000, deposits had reached a figure of £2¼ millions—a far swifter growth than any recorded in preceding chapters on provincial banking. Only two years after establishment the board had considered the possibility of extending the bank's sphere of operation by opening a branch office in the west end of

<sup>(1)</sup> Rolls Court, Westminster, May 5, 1838, *Bank of England v. Booth and others*.

<sup>(2)</sup> Burgess' Circular to Bankers, May 11, 1838.

London, but no favourable opportunity occurred until, towards the end of 1840, the old-established private bankers of Covent Garden, Wright and Co., suspended payment.

Wright and Co. was the final title of a business which dated back to the days of goldsmith banking. As early as 1699 William Wright was a goldsmith of Great Russell Street, Covent Garden, and his thriving trade was maintained by his progeny. Under Anthony Wright the range of business was widened to include elementary banking operations, until by 1759 he was described as a banker at "Ye Golden Cup, Common Garden, London". Later the firm was housed in Henrietta Street, and the goldsmith side of the business fell away, leaving Wright and Co., under various partnership titles, as private bankers of increasing repute and growing business. The family adhered strongly to the Roman Catholic faith, and their long career brought them powerful connections, particularly among their wealthy co-religionists. The collapse of this prosperous and highly-respected firm was due solely to the indiscretion of one of the partners, John Wright, who had misused the bank's funds in recklessly promoting a number of companies, concerned in businesses as remote from his own profession as the manufacture of white lead, the building of steam ships, emigration and land development in the colonies, and railway enterprise on the continent. The circular letter announcing suspension of payments was signed by John Wright alone in an endeavour to "acquit them [his partners] of all blame and impute solely to [himself] the lamentable consequences which have now ensued"; the partners had, indeed, "constantly remonstrated and expostulated against every irregularity and departure from the legitimate business of the house".<sup>(1)</sup> The creditors might perhaps have been pardoned for feeling that the partners should have employed more forceful measures to avert disaster, for it was soon realized that a resumption of business was impossible. In these circumstances the London Joint Stock Bank approached the partners and concluded, to quote the directors' minute book, an "honourable understanding between certain noblemen and others by which the business of the late firm Wrights' should be transferred to this Bank". Two partners of the firm, Messrs. Robinson and Jerningham, became joint managers, and, with several clerks formerly in the service of

<sup>(1)</sup> Quotations from circular addressed to the clients of Wright and Co. and reprinted in Burgess' Circular to Bankers, November 24, 1840.

Wright and Co., formed the personnel of the "western branch" of the London Joint Stock Bank. A few months later the business was removed to newly acquired offices in Pall Mall, previously occupied by another old firm of private bankers, Hammersly and Co., who also failed in 1840.

These early years gave other evidence of progress to support the gratifying record of balance sheet figures. Early in 1839 it became known that the bank had obtained a large and important railway account hitherto kept with a firm of private bankers, and, although a well-known financial writer<sup>(1)</sup> seized the occasion to reprove the bank for "purchasing" an account by the offer of a large advance, it was a significant occurrence. Incidentally, this editorial comment expressed the belief that the London Joint Stock Bank owed its immediate success to a directorate which included "names much respected and well-known in the City", which "have given a tone in popular estimation to the Bank", and went on to speak of the joint stock system as one creating "a popular impression of absolute safety" because of the large number of responsible partners. This faint praise, however, was followed by a comment typical of widespread current opinion:—"None of these institutions can for a long period of time command the highest range of business".

The all-important legislation of 1844 inevitably exerted a strong influence upon the London banking system. Although the note issue provisions of the Bank Charter Act did not touch the London banks, whether joint stock or private, a welcome clause expressly permitted joint stock banks in London to accept bills at less than six months after date, so bringing to an end the acute injustice already noticed. Moreover, under the contemporary banking code the joint stock banks already in existence were in effect granted freedom from new competitors for more than a decade, a sufficient time for the London banking co-partnerships not only to become firmly entrenched, but also to enjoy the first fruits of their hard-won victory. During these early years the joint stock banks in London confined themselves strictly to the metropolitan area, and their connection with the provinces was limited to their activities as agents for the country banks. It was thus as competitors with existing institutions on their own ground that the London joint stock banks achieved their outstanding success.

<sup>(1)</sup> Burgess' Circular to Bankers, April 5, 1839.

They did so, moreover, during a period when external conditions were by no means favourable. The Bank Charter Act was but three years old when financial strain went so far as to necessitate the first temporary suspension of the clauses of the Act which governed the Bank of England's note issue.<sup>(1)</sup>

The shock of this crisis provided a stern test for the London joint stock banks. The fact, however, that they came safely through the trial which overwhelmed some of their brethren in the country, and that they were able, indeed, to play a part in stemming the tide of panic, did much to raise their standing not only within the city itself, but in the provinces as well. The London Joint Stock Bank, for example, though itself faced with a decline in deposits, was able to assist with accommodation an important correspondent bank in the north of England. Yet its losses were by no means inconsiderable,<sup>(2)</sup> even though not serious enough to prevent the usual dividend payment of six per cent in January 1848; indeed, on this occasion it was augmented by a bonus of three-and-a-half per cent. No change was made in the mode of doing business, except for a stiffening of the rules governing the conduct of agency accounts on behalf of foreign banks. The importance of the joint stock banks in London increased so rapidly after the crisis that in 1854 their status was accorded striking recognition, when at last they were admitted to membership of the London Clearing House.

Whatever may have been the precise contribution of different factors, it cannot be doubted that the success of the joint stock banks in London was due largely to the generous terms upon which they conducted business. Yet the payment of interest upon current and deposit accounts, which was still entirely foreign to the nineteenth century practice of the private bankers, cannot have been the sole cause of their rise to full equality with the older banking firms, for they do not seem to have lost ground in any substantial degree when conditions enforced a change of practice. The low rates ruling throughout 1843 and the greater part of 1844 had narrowed the margin of profit so drastically that, in the London Joint Stock Bank, dividend payments were maintained only by drawing upon the guarantee fund, which,

<sup>(1)</sup> See chapter I.

<sup>(2)</sup> They were reported at £30,000, but £6,000 of this arose from defalcations at the western branch, the discovery of which very nearly ended its career. A committee was appointed to "consider the disposal" of the office, but reported in favour of retention after reorganization and changes in the management.

however, remained at a high level. The attention of the board had several times been called to the burden imposed by fixed interest payments on current accounts, and in February 1844, at a meeting twice adjourned after prolonged discussion, a decision was arrived at by which interest on current accounts was reduced from two to one per cent, to be allowed only on accounts with an average minimum monthly balance of £200. Even so, the cost of interest on current accounts amounted to more than £20,000 a year, representing over three per cent on the capital of the bank. It was reported<sup>(1)</sup> that the change was received by customers with a "feeling of liberality", and certainly it was not accompanied by a decrease in credit balances. By 1848, it was stated, the cost of interest on current accounts had been curtailed by more than one-half, despite an increase in the total of outstanding balances. But the long period of low rates in 1851-2 brought the subject into prominence once more, and culminated in a circular issued by the bank announcing that all interest upon current accounts would be discontinued. The allowance was never revived. Again, no adverse effect on the total of credit balances can be traced, though as might be expected a considerable change took place in their composition. Thus in the year to December 1853, while the total rose from three to four-and-a-half millions, the increase was more than accounted for by additions to deposit accounts, which stood at £2,400,000 as compared with £690,000 at the beginning of the year—a growth from less than one-quarter to more than one-half of the total for credit balances.

In taking this step the London Joint Stock Bank contributed to a clarification of banking practice, so that by the later 'fifties the modern distinction, in London banking, between interest-earning deposit accounts and non-interest-earning current accounts was becoming fairly general, despite the fact that the private bankers still paid no interest even on deposit accounts, and despite the short-lived revival of interest on all credit balances by a few new banks formed at a later date. The force of competition had already brought some uniformity and flexibility into the rates allowed upon deposit accounts by the various joint stock banks, the usual payment being one per cent below the Bank of England's discount rate. This was, however, only a broad general rule, subject in practice to numerous qualifications and shades of

<sup>(1)</sup> Directors' report to general meeting, July 1844.

interpretation, based upon the size of the balance, the required period of notice of withdrawal, and so on. Even at this early date, moreover, the conventional three, seven or ten days' notice of withdrawal from deposit accounts was commonly disregarded, and the banks do not appear to have attempted to enforce the strict letter of their contracts, beyond requiring proportionate forfeiture of interest in lieu of notice. Among the London banks there was no form of agreement whatever as to general terms; there was nothing to compare, for example, with the agreed rules observed by the Scottish banks. In 1857, however, when crisis conditions carried the Bank rate to ten per cent, the joint stock banks in London reached an understanding not to follow the rate beyond nine per cent. For a few years thereafter the London banks advised each other of any important changes in rates, but variations in terms and conditions remained, and the banks drifted back into the old, loosely-interpreted acceptance of the Bank rate as the standard for interest allowances.

The fact that the joint stock banks retained interest payments on deposit accounts continued to operate in their favour, for only very exceptionally did the Bank of England or the London private bankers allow interest upon any accounts, and this, while it probably did not lead to any considerable desertion by old customers, certainly discouraged new business. Moreover, the joint stock banks were gaining strength, both relatively and absolutely, from an extension of the banking habit to a wider circle of people. Quite apart from competitive steps, they set out to explore a range of business hitherto untouched by the private banks. The small trader, shopkeeper and manufacturer received their special care, and in a number of ways the joint stock banks adjusted banking practice in London to the benefit of this larger public. Thus they abolished the clerks' Christmas box, which, from constituting part compensation to the banker for the trouble of keeping an account, had grown into a system of supplementing salaries out of public contributions. A contemporary authority<sup>(1)</sup> stated that in some banking houses the clerks received quite half their earnings from Christmas boxes; even the employees of the Bank of England benefited from contributions from London and country banks.<sup>(2)</sup>

<sup>(1)</sup> *Bankers' Magazine*, December 1849.

<sup>(2)</sup> A cheque is still preserved in respect of a payment of twenty-one guineas from the London Joint Stock Bank to the "Bank of England Clerks' Christmas boxes" and similar items are to be found in the records of some country banks.

Early in their history the joint stock banks in London replaced this courtesy tribute by a definite commission charge on those accounts with a balance so small as to be unremunerative, thus levying a charge where a charge was justified and at the same time providing a useful alternative to the old requisite of a large idle balance as recompense to the banker.<sup>(11)</sup> Then also, the numerous bank shareholders formed an invaluable medium for introducing the habit of "keeping a banker" to their personal and business friends, a form of propaganda that was encouraged by the officials of the banks and strongly supported by the publication and distribution of balance sheets, annual reports and leaflets describing terms of business.

In many other ways, too, banking conditions around this time were approaching those familiar to later generations of customers. The doors of the London banks were still open from nine in the morning until five in the afternoon on every working day, though the hours in other mercantile cities were shorter at each end. A petition put forward by clerks in 1848, and supported by merchants and brokers, secured the closing of banks at 4 p.m. in the City, though not in the west end. Twelve years later a beginning was made upon the weekly half-holiday, by a general agreement to close banks at 3 p.m. on Saturdays.<sup>(12)</sup> Staff conditions generally were clearly on the up-grade. At the general meeting of the London Joint Stock Bank in 1845 the co-partners, replete even at this early stage with confidence in the future of their company, tabled a motion requesting the board to consider the possibility of forming a staff pension and sickness fund; and, although the directors "after anxious and deliberate consideration" decided not to accept the proposal at that time, the incident provides an example of the responsibility acknowledged by early proprietaries for the internal conduct of their undertakings.<sup>(13)</sup> Again, about the middle of the century, when salaries paid to bank clerks were in general notoriously inadequate, strong feeling on the matter culminated in action by the staff of

<sup>(11)</sup> *Bankers' Magazine*, August 1849. The article explains that because of the commission charge there was no longer any need for small traders to be required to maintain a balance of from £2-300, apparently the old formal minimum "free balance".

<sup>(12)</sup> It was not until 1886 that the clearing banks agreed to close at 2 p.m. on Saturdays, and another sixteen years went by before the time was fixed at 1 p.m. The present arrangement of closing at 12 noon dates from 1919.

<sup>(13)</sup> This incident may be compared with that in the history of the Bradford Banking Company, page 206.

the London Joint Stock Bank. In January 1852 it was rumoured that a "strike" had taken place, but this was denied in *The Times*, though it was admitted that "something very unpleasant occurred".<sup>(1)</sup> The precise nature of the incident is lost to history, for there is no record of the affair in the directors' minute books or any other documents still preserved.

Thus by the late 'fifties the joint stock banks in London had not only become an accepted and influential part of the English banking system, but they had succeeded also in improving the terms upon which business was conducted, as well as the living conditions of bank staffs. Yet the characteristics which distinguished banking in the provinces from the London practices had so far been maintained. Even before the repeal of the banking code in 1857, the rich reward accruing to the pioneers of joint stock banking in London had tempted a few hardy adventurers to try their fortune, despite the rigour of existing legislation. A sudden spurt in proposals for new joint stock banks in the metropolis<sup>(2)</sup> took place after a decade of quiescence, and the fulfilment of at least three of the schemes put before the public pre-dated the repeal of the code. The new banks were small, and the fact that one of them suspended payment in 1856, while a second followed suit ten years later,<sup>(3)</sup> helped to prove the futility of attempting to secure the safety of banks solely by statute, however strict might be the legal code.

Despite the protection accorded to existing institutions by the code of 1844, the private banks failed to regain lost ground, though somewhat stronger resistance was offered to the downward trend. In London there was even a small increase in the total number of private firms, and again West Smithfield provides an illustration of the process. The rising population of the metropolitan area brought an ever-increasing congestion in this central market, more particularly as an early result of railway transport was the development of a "country trade" that threw a new burden upon the available space.<sup>(4)</sup> The insistent problem of overcrowding

<sup>(1)</sup> *Bankers' Magazine*, 1852, page 63.

<sup>(2)</sup> Early in 1856 the *Bankers' Magazine* (page 205) spoke of the advertising columns of journals as "literally teeming with preliminary announcements of new banks in the Metropolis".

<sup>(3)</sup> They were the Royal British Bank (1849-56) and the Bank of London (1856-66).

<sup>(4)</sup> Report of Select Committee on Smithfield Market, 1847, P.P. vol. 8, page 123. Apparently beasts were being sent from London to Liverpool, Birmingham and the south country.



illustrates the swift expansion of trade as well as centralization upon London that was developing in other economic activities besides banking. In spite of this growth there had been no addition to the three specialized banking firms in the market founded early in the century, but it may be supposed that by this time the enlarged volume of trade pressed upon their resources and called for some extension. Accordingly a new firm was established about 1851 by T. M. Challis<sup>(1)</sup> in partnership with his son. As a welcome addition to the banking resources of the market, the venture was an immediate success and was well established before the Corporation of the City at last took steps to alleviate the inefficient and unhealthy conditions of the trading areas. In 1855 the Metropolitan Cattle Market was opened in Copenhagen Fields, Islington, and very soon most of the live meat was sent there for disposal, leaving the Smithfield acres empty and deserted for a few years. The specialized banks followed the trade by opening branches in the Copenhagen Market, both Lacy and Son (formerly Pocklington<sup>(11)</sup> and Lacy) and Challis and Son thus extending their geographical scope.

While it is true that only a very few banks, most of them far from successful, came into being under the code of 1844, one such achieved marked success. This was the City Bank, established in 1855 mainly by the energy of Sir Robert W. Carden,<sup>(111)</sup> alderman, of the firm of Carden and Whitehead, stock and share brokers at No. 2 Royal Exchange. Carden was a City personage of considerable influence, who conceived the idea of establishing a new undertaking when invited to take the chair of a "leading metropolitan bank", an honour which he declined on the ground that he "wanted a bank of his own".<sup>(1v)</sup> His ambitions were doubtless encouraged by the rising business optimism of the period. Accordingly the City Bank was formed under the ponderous provisions of the code of 1844; thus the shares were of £100 denomination, the minimum permitted, with £50 paid up, again the legal minimum proportion, and the offer of 3,000 shares envisaged a subscribed capital of £300,000, three times the

<sup>(1)</sup> There is some evidence that this was the Challis of the firm of meat salesmen in Leadenhall market, Challis, Harris and Lee.

<sup>(11)</sup> Joseph Pocklington, founder of the firm and master of the Butchers' Company 1830-1, died in 1850.

<sup>(111)</sup> With him were associated Sidney Gurney, John Lidgett, Jonathan Thorp, Henry Gardiner, Andrew Lawrie and John Vanner.

<sup>(1v)</sup> Annual Report for 1863 as reported in *Banquers' Magazine*, 1863.

statutory minimum of £100,000. The issue was considerably over-subscribed, so that in April 1855 the bank was ready to proceed, and, but for the 1844 provisions, would immediately have opened for business. Under the code, however, there were further formalities to be fulfilled. Permanent premises had to be secured, and it was not enough to take temporary offices at the Royal Exchange. Accordingly, property on the corner of Threadneedle Street and Finch Lane was obtained, and rebuilding set in hand immediately.<sup>(1)</sup> It was then necessary to obtain a charter, and a petition was therefore lodged at the office of the Privy Council. After passing the Committee of the Privy Council, the Board of Trade, the Solicitor-General and Attorney-General, the request was finally approved, and on August 6, 1855 the bank opened for business. By this elaborate process the bank did not, as might be supposed, obtain the benefits of limited liability accorded to shareholders in the old chartered companies; the new form of charter was nothing more than evidence of the fact that the company had conformed to elaborate statutory provisions.

The City Bank, beginning business twenty years after the first joint stock banks in London, when the battle for survival had been fought and won, was not greeted with the storm of opposition and jealousy that had disturbed the early years of the pioneers. It had, however, to make its way in the face of strong rivals, for the firmly established joint stock banks, as well as the diminishing but still predominant private bankers, maintained a close hold upon London banking. There was not much scope for attracting deposits from these firmly set groups, even by the fullest exploitation of whatever prestige was contained within the description "Incorporated by Royal Charter". Where the new bank might best hope to succeed was in the acquisition of new business, and this it proceeded to seek, in the traditional manner of non-issuing banks, by offering generous terms. The allowance of interest upon current accounts was revived. A graded scheme offered two per cent for balances over £500 and one per cent between £200 and £500, while deposit accounts received the standard rate of one per cent below Bank rate, subject to a maximum of five per cent. The response of the public was encouraging. After six months of life the growing business of the bank pressed

<sup>(1)</sup> This building subsequently became the head office of the Midland Bank until the transfer, in 1930, to the present head office building in Poultry. Since then it has remained as the Threadneedle Street branch.

heavily upon the original paid-up capital, still at the modest figure of £150,000. A bold resolution set out to increase the nominal capital to £1 million, but this could be done only by a petition for a supplemental charter. Once this expensive formality had been carried through, little difficulty was met with in obtaining support. At various times between 1856 and 1863 new shares were issued in blocks of from one to two thousand and at premiums ranging from £8 to £25 per share of £100 with £50 paid up. At the end of 1863 deposits exceeded £3½ millions, the reserve fund had reached £80,000, and the dividend and bonus distribution amounted to nine per cent per annum. Compared with the figures of provincial banks, these showed an astonishing advance; yet it was by no means remarkable in London, for by this time the deposits of the London Joint Stock Bank had surpassed £14 millions.

The record is remarkable, too, in that scarcely had the bank attained one year of life when it was called upon to face, in common with older and more firmly established banks, the crisis of 1857. During this period of strain the stability of the metropolitan joint stock banks and of London banking generally was amply demonstrated, for not a single bank closed its doors, though the suspension of two bill-broking firms, with total liabilities exceeding £8 millions, aggravated the distress. The report of the directors of the London Joint Stock Bank which covers this critical year makes no mention of any difficulty, and at a later inquiry it was revealed that, beyond strengthening the reserve, no special steps were taken, and customers received the discount accommodation they required.<sup>(1)</sup> The City Bank directors remarked that the bad debts arising out of the crisis were less serious than might have been expected, having regard to the violence of the upheaval. But the two banks had not escaped so lightly as at that time was believed. One of the principal means whereby speculators had obtained resources for their activities was a flagrant misuse of accommodation bills, and these bills were foisted in large amounts upon the joint stock banks, especially those provincial institutions rash enough to encourage the practice by re-discounting with London. For their part, the principal London joint stock banks had from the start adopted the rule

<sup>(1)</sup> Select Committee on Bank Acts, 1858, answer of G. H. Foster, whose statement is contrasted in the evidence with the public assertion of the Chancellor of the Exchequer that for three days of the crisis period the Bank of England was virtually the only discounteer.

never to re-discount directly with the Bank of England.<sup>(1)</sup> Their bill transactions were conducted through the bill brokers, and it was a fixed principle that a customer's bill did not leave the hands of the bank until its due date. Nevertheless, in the capacity of holders of bills, they were affected by any considerable misuse of accommodation paper. The crisis did not bring about the extinction of all the firms supporting themselves in this dubious fashion, and in 1860 a series of failures in the leather trade arose from this same cause. One of the firms most closely concerned was a customer of the London Joint Stock Bank, while the City Bank held more than its fair share of the paper put out by reckless traders. Losses amounting to £60,000 by the larger bank and £17,000 by the smaller were met in the following year from internal resources. A slight reduction in dividend was undertaken by the London Joint Stock Bank, but the former rate was soon restored, and the complaints of the shareholders silenced.

The application of limited liability to banking under the Acts of 1858 and 1862 found its most favourable field in London. For one thing, new banks did not have to contend in London with old note-issuing competitors. Furthermore, the joint stock banks in London had always published balance sheets, so that the provision in the law requiring this disclosure of information presented no deterrent to new enterprise. The first limited liability bank registered in England was the Metropolitan and Provincial Bank Limited—the name implied an early conception of fusion between London and country—and within a few days this was followed by the Mercantile Bank Limited. Both were projected late in 1861, and were so coldly received that neither succeeded in completing its share list, and early in 1862 they were forced into pre-natal amalgamation under the name of the pioneer and with a capital of £69,000. A few months later a third and fourth proposal were more fortunate. The Alliance Bank of London and Liverpool Limited was embarrassed by an over-subscription of more than four times the amount of shares offered, while the Imperial Bank Limited quickly obtained sufficient public support. Both the new banks were believed to have strong business connections awaiting development. By the

<sup>(1)</sup> By contrast, the London private banks had at one time discounted freely and directly with the Bank of England, but after 1825 they ceased to do so. See E. T. Powell: *Evolution of the London Money Market*, page 331.

end of the year no less than sixteen limited liability banks had been formed in London, with a total nominal capital of approximately £20 millions, of which about one-tenth was paid up, and the shares of nearly all of them commanded a high premium.<sup>(1)</sup>

The Imperial Bank Limited was the creation of Andrew Lusk, the son of a small farmer in the north of Scotland. Born in 1815, he had left his native moors at an early age to practise journalism in the Clyde district. From there he moved to London in 1845, directing his resourceful mind into the more profitable channels of trade. As a dealer in ships' stores and a merchant in Fenchurch Street, he rapidly acquired a considerable fortune and the confidence of a wide circle of business friends. The application of limited liability to banking presented an opportunity which he was not slow to seize, and in 1862 he founded the Imperial Bank with a nominal capital of £3 millions, of which £1 million was issued in shares of £100 with £10 paid, making the paid-up capital £100,000. The project was well received and the modest capital quickly subscribed, a result which followed, to some extent, upon purely fortuitous circumstances. Just prior to the formation of the Imperial Bank, the Commercial Bank of London—one of the first five metropolitan joint stock banks—suspended payment. The projectors of the Imperial Bank saw an opportunity of obtaining well-situated offices, and promptly made a well-judged offer for the premises. The purchase was readily carried through, and for a short time both banks occupied rooms in the same building at No. 6 Lothbury. In these circumstances it was, perhaps, inevitable that the two banks should become associated in the public mind, although in fact the business of the failed bank had been purchased by the London and Westminster Bank. At a meeting of shareholders of the Commercial Bank the chairman strenuously denied any connection with the newly-formed Imperial Bank, other than that arising out of the sale of premises, but the tone of some of his remarks implied that the general assumption was not altogether unjustified.<sup>(2)</sup> It seems probable that the Imperial Bank obtained some material benefit, as well as a considerable initial impetus from the circumstances described. At any rate the first accounts, published in December 1862, recorded

<sup>(1)</sup> *Bankers' Magazine*, 1862, page 700. The list, which covers the period to November 1862, shows that ten of the sixteen new banks were concerned with foreign and colonial business and most of these were unsuccessful. See page 32, footnote.

<sup>(2)</sup> *Bankers' Magazine*, 1863, pages 258-62.

deposits of £500,000, and only three years had passed before they had doubled, while the paid-up capital then reached £450,000 and the reserve exceeded £50,000. It should be remarked, however, that the board had meantime received a notable reinforcement.<sup>(11)</sup>

The spate of new banks continued into the following two years. Among them was the East London Bank Limited, a company initiated by a Mr. Sleigh. He brought together a group of directors<sup>(12)</sup> and undertook to form the bank for a sum not exceeding £5,000, the preliminary expenses to fall on his shoulders in the event of failure to attract capital. The bank was successfully launched, and the public response was so great as to prompt the formation of yet two more London banking companies.<sup>(13)</sup> The rapidity with which new schemes came forward gave the movement the appearance of a speculative boom in banking companies. Generally speaking a small paid-up capital was sought—none of the banks here mentioned endeavoured to obtain more than £100,000—and usually a low denomination was selected for the shares. Customers were attracted by the offer of interest upon both current and deposit accounts at terms of varying generosity, and, while the figures of the existing joint stock banks show little sign of loss of business, it seems probable that private banking firms again lost heavily. The riot of banking enterprise, spreading from London to the provinces, extended to undertakings set up for overseas business, and finally to the successful launching of some early examples of finance and trust companies.

For a time it was feared that established forces might once again adopt the misguided policy of unreasonable antagonism which had so severely handicapped the first joint stock banks. Both the Imperial Bank and the Metropolitan and Provincial were at first refused admission to the Clearing House, which was still under the control of private bankers, though several joint stock banks were members.<sup>(14)</sup> Happily, the prohibition was withdrawn

<sup>(11)</sup> H. L. Bischoffsheim, A. P. Petrocchino, A. A. Ralli, P. C. Ralli and D. Stern were elected as directors in 1864. The first result of their taking office was a considerable rise in the market price of the bank's shares.

<sup>(12)</sup> They were Charles S. Butler, M.P., John George Barry, Richard Bradshaw, Thomas Brushfield, Charles Capper, Robert Cullum, James Fenning, Edward T. Foord, William B. Greenfield, Albert Pelly, George Smith, Cornelius Walford and Thomas White.

<sup>(13)</sup> The North London Bank and South London Bank. *Bankers' Magazine*, 1863, page 898.

<sup>(14)</sup> See page 395, for an illustration of direct discouragement of a limited liability bank by the Clearing House at about this period.

within a few months, and from the end of 1863 a constitution which included limited liability was not regarded as in itself a bar to membership. There was, however, considerable feeling against the new type of constitution, and the sentiment was shared by the old London joint stock banks, who held to their belief that public confidence could be obtained only by pledging the private estates of all the shareholders as ultimately liable for the debts of the bank. The chairman of the Metropolitan and Provincial Bank Limited, at the first annual general meeting of the company,<sup>(1)</sup> spoke of this prejudice and its removal as follows:—

“ When this institution was first started, many well thinking and well meaning people fancied that, inasmuch as the bank was founded upon the principle of limited liability, it carried with it the elements of failure, but experience had proved that the public were as enlightened upon and could take as clear a view of the security of limited liability as those who had previously studied and written upon the subject. . . . They of the Metropolitan and Provincial Bank had a right to congratulate themselves not only by the success which they had attained, . . . but [also in that] they had been followed by a large number of similar institutions.”

Thus the regard for tradition, though probably still general among the London and some of the large country banks, was by no means universal. Indeed, it was not long before a number of banks sought the convenience of the new constitution, changing their form to limited liability companies, and among them were some of the oldest and most important banks in England.

One of the later formations during this period of rapid development illustrates the way in which private banks sought the convenience of limited liability. The Albion Bank Limited, established in 1864 with a nominal capital of £1 million in shares of £50, of which 10,000 were to be issued with £15 paid up, was formed to undertake the task of financing the agricultural and cattle markets of the metropolis. Quite naturally, the promoters sought an alliance with an established banking firm as a suitable means of introduction to this specialized business. Two such firms have already been mentioned: the one, Lacy and Son, founded in the early years of the century and now enjoying the large business and

<sup>(1)</sup> Held on January 19, 1863, as reported in the *Bankers' Magazine*, 1863, page 125.

high prestige flowing from half-a-century's activity in the market, was not likely to look favourably upon proposals for absorption; but with the other, Challis and Son, it was a different story. This second firm had been established only a few years before the rapid growth of Smithfield Market made necessary a removal of the trading area to Copenhagen Fields, Islington. There, relatively untrammelled by considerations of space, and relieved of the old difficulty of driving reluctant herds of cattle through the centre of the city, the required expansion to meet the needs of increasing population and centralization upon London was far more easily achieved. It was at least consistent with this technical modernization to find a beginning made upon the adoption of more up-to-date forms by the banking firms of the market. So it was that the firm of Challis and Son acceded to the proposal of the promoters of the Albion Bank and merged its business into that of the limited liability company, T. M. Challis being appointed manager of the new bank.

The limited liability banks which were born in London during the early 'sixties did not long survive as individual companies. Most of them, pressed by the force of competition, amalgamated with larger banks before the close of the nineteenth century, and from this time on the history of London banking is concerned mainly with a process of coalescence, side by side with the union of London and country. It was not, however, always the largest banks of the 'sixties which grew into the giants of the twentieth century, and it is this contrast in the progress made by the separate banks that gives special interest to the series of amalgamations recorded in the next chapter.



## CHAPTER X

### CONSOLIDATION IN LONDON BANKING

THE process of consolidation in London banking was hastened by severe crises which clarified the position of the Bank of England as an active instrument of financial regulation, rather than a passive holder of final reserves. Long-standing antagonisms between the Bank and its competitors and between private and joint stock banks were allayed to some extent by the necessity of jointly facing common dangers, and the banks were brought to a degree of practical, though intermittent, association which contributed to the emergence of what might accurately be called a banking system. The need for greater cohesiveness was amply demonstrated in the crisis of 1866. There were signs of approaching disaster in the second quarter of that year, when several failures occurred among large trading firms, and Barned's Bank at Liverpool suspended payment. Nevertheless, the blow struck with almost complete unexpectedness when on Friday, May 10, Overend, Gurney and Co., once "the greatest instrument of credit in the kingdom",<sup>(1)</sup> suspended payment, with liabilities exceeding £10 millions.

Overend, Gurney, as the largest discount house in London, held bills of merchants all over the country, and a considerable proportion of the firm's liabilities consisted of balances placed with it by numerous provincial banks. Although some of the banks in London had suspected that all was not well with the firm, even the vigilant and exceptionally well-informed George Rae was quite unaware of its deplorable condition until the eve of the collapse,<sup>(2)</sup> while Heads, the Carlisle bankers, connected by family ties with Overend, Gurney, were heavily involved in the suspension.<sup>(3)</sup> A run on all London banks began, urgent requests for help poured in from the provinces, and the Bank of England was besieged by demands for assistance. Once again, authority from the Government to the Bank of England to extend its note issue made a powerful contribution to the restoration of tranquillity. The panic subsided almost as quickly as it had arisen, and

<sup>(1)</sup> *The Times*, May 11, 1866.

<sup>(2)</sup> See page 188, footnote.

<sup>(3)</sup> See page 130.

the Act was not in fact infringed, partly because the London bankers gave concerted support to the Bank of England.<sup>(1)</sup> But the toll of failure was heavy, and widespread losses and suspensions continued for several weeks, involving the failure of, among others, the Birmingham Banking Company<sup>(11)</sup> and the Preston Banking Company,<sup>(111)</sup> both in July 1866. It was in London, however, that the crisis had its immediate origin, and London suffered the most severely. Nevertheless, the principal London joint stock banks stood firm, despite remarkable fluctuations in their figures. The total deposits and acceptances of the five original banks rose from £41 millions in 1860 to £76 millions in 1865, and fell to £70 millions in 1867. Of the five, the London Joint Stock Bank suffered the widest variations, due largely to the inclusion of acceptances in its figures.<sup>(1v)</sup> Despite this acute experience, which brought its liabilities down to £12 millions in 1867, the bank did not suffer any large loss. The City Bank, however, was by no means so fortunate; its liabilities, which had risen from £2½ millions in 1860 to £5 millions in 1865, suddenly fell away to less than £4 millions a year later. The decline, due entirely to the shrinkage in acceptances, was accompanied by losses of £100,000, met principally by drawing on the reserve fund. Further, the bank was weakened by internal dissension, a violent quarrel among the directors on the subject of branch expansion having led to the resignation of Sir Robert W. Carden, founder of the bank and chairman for seven years.

The newly-formed limited liability banks in London had smaller reserves of strength to draw upon. Scarcely had they been established when they were caught up in the turmoil of expansion, and it was not to be expected that they would escape unharmed from the ensuing collapse. Most of them were severely tried, and several found their difficulties well-nigh fatal. The Metropolitan and Provincial Bank Limited had already been weakened by

<sup>(1)</sup> Every night of the crisis they paid in notes from their tills. *Bankers' Magazine*, 1867, page 359. Just as this procedure saved the restrictions imposed by the Bank Charter Act, so in a much later period similar action had to be relied upon to save an equally arbitrary Treasury Minute (the "Cunliffe limit").

<sup>(11)</sup> See chapter II.

<sup>(111)</sup> See chapter V.

<sup>(1v)</sup> The London Joint Stock Bank did not separate "acceptances" from "deposits" until 1879, and the consequent wide range of figures in times of stress is shown by the following totals for deposits and acceptances combined in the ten years from 1860 (£ millions): 10·6, 11·4, 11·5, 14, 20·3, 18·2, 15·3, 12, 14·8, 13·6. A much steadier movement is to be seen in the deposit figures of the London and Westminster Bank, which did not at any time include acceptances.

diminished public confidence and internal dissensions. Branches had been opened in Oxford Street, at Woolwich<sup>(1)</sup> and—a far cry indeed—at Macclesfield, in response to the invitation of several leading manufacturers. In 1864 heavy losses revealed that the apparent early success had in fact been achieved by rash lending, and when it was known that the whole of the reserve fund of £40,000 had vanished in speculative advances, loss of confidence brought a decline in deposits from over £1 million to less than £400,000. The general manager was dismissed, and six months later the position of the bank was said to have greatly improved. Nevertheless, at the turbulent annual general meeting in July 1865 a number of shareholders pressed for sterner measures of reorganization. The new manager is reported to have remarked, amid loud cheers, that “he had not taken lightly the position of manager. He had satisfied himself that the bank was worth twenty shillings in the pound. Speaking as a proprietor holding 35 shares, he should decidedly recommend the resignation of the whole of the Board”!<sup>(2)</sup> It was plain enough that only in the most favourable conditions could the bank survive; as it was, the events of 1866 proved fatal. In July of that year the balance sheet contained an item disclosing that the sum of £144,000 (equal to one-third of the total deposits) was locked up in inoperative accounts; yet in spite of this the shareholders over-rode both directors and auditors, and declared a dividend. Five months later the bank was wound up voluntarily, to be resuscitated in 1867 with a title shortened to Metropolitan Bank Limited, and with Sir Robert W. Carden, formerly of the City Bank, as its new chairman. The procedure involved a reduction of capital from £337,000 to £200,000, and with the heavy bad debts written off in this drastic fashion the bank came to life again, its deposits amounting to less than £300,000.

The East London Bank, too, after severe losses, emerged from the welter of financial disaster under a new name. A month after opening, in December 1863, the bank had entered into an arrangement with a Mr. Weston<sup>(3)</sup> to establish a branch in

<sup>(1)</sup> The branch at Woolwich was taken over from the London and Middlesex Bank, which went into liquidation in 1863.

<sup>(2)</sup> As reported in the *Bankers' Magazine*, July 1865.

<sup>(3)</sup> It seems likely that he was at one time connected with the firm of Weston and Co. (later Young and Co.), private bankers in Southwark from 1795 to 1849, at which date the business was taken over by the London and Westminster Bank. The name Weston disappeared from the firm name in 1847.

Southwark; two other offices were opened shortly afterwards at Shoreditch and Whitechapel; and premises for a permanent head office were acquired in Cornhill. Steady progress carried deposits up to £495,000 by 1865, and enabled a small reserve to be accumulated, but the succeeding disastrous year brought a setback; the next published accounts showed that deposits had declined by £100,000, that the reserve fund had been swallowed up by bad debts, and that a suspense account of £44,000 remained as a painful legacy of the crisis. Nevertheless, the bank steadily recovered its position. With a view to attracting a wider circle of customers, the name was changed to the more general title, Central Bank of London Limited, and at the same time the shares were split into a smaller denomination, with a lower proportion of uncalled liability.<sup>(1)</sup> These alterations were completed in 1870, and thereafter the bank quickly resumed its upward course.

One of the few limited liability banks in London which came through the crisis unharmed was the Imperial Bank. This prosperous undertaking, with a capital of £449,000 and deposits of just over £1 million, was able to report in January 1867 that the recently opened Westminster branch had proved successful, that throughout the crisis the bank had had no need either to borrow or to re-discount, and that there were no bad debts to be written off. Even for the crisis year a dividend of eight per cent was paid. This was an excellent record for so young a bank, and its reputation was not seriously damaged by the fact that six months later a loss arose by the veriest chance, due to pressure of business on a "balance day" and the criminal operations of a client on the stock exchange, whence a large part of its connection was derived. Six months later it was stated that, the loss having been written off out of reserves, the bank had completely recovered from the setback; nevertheless, the shares remained at a discount. Various explanations were given of a phenomenon "incomprehensible" to the chairman of the bank himself, the most plausible being that investors were nervous of the liability of £80 on a share with only £20 paid up. It is at least possible, however, that the depreciation was unrelated to any real estimate of the bank's safety or earning capacity. The cause may well have been found in "bear" operations on the stock market,<sup>(1)</sup> of

<sup>(1)</sup> The issued capital was 20,000 shares of £50 each, with £5 paid up, and these became shares of £10 each, with £5 paid up. The change represented no more than a reduction in the amount of the nominal capital.

<sup>(1)</sup> See page 33. Such operations were suppressed by legislation in 1867.

a kind more clearly illustrated by the experience of another of the new limited banks.

The Albion Bank Limited was in the throes of the crisis only two years after establishment, but, drawing strength from its origin in a private banking business, it weathered the storm without severe loss. Subsequently, however, its shares became subject to speculation, and during the last few months of 1866 their market price declined persistently, leading to a "precipitate and unfair" attempt to force the bank into liquidation. A small shareholder petitioned in Chancery for the winding up of the bank on the ground of undisclosed losses resulting from gross mismanagement. The directors, with the full support of the general body of shareholders, resisted the action, categorically denying all the allegations. They won the case, and costs were awarded against the petitioner.<sup>(1)</sup> But the activities of speculators were evidently by no means the only source of difficulty for the Albion Bank. Three years later, although regular dividends of four and five per cent had been paid, the shares were again quoted at a damaging discount. The capital was in shares of £50 with £15 paid up, and at the beginning of 1871 a market quotation of about £5 was usual. In these trying circumstances the bank was more than willing to sink its identity in a larger institution, and, when in April 1871 the London Joint Stock Bank offered to purchase the business and premises, terms were rapidly negotiated. The result was seen in the addition of two offices, in West Smithfield and Copenhagen Cattle Market, Islington, to the short list of branches of the London Joint Stock Bank. By this time West Smithfield had recovered its importance, though now as a market for dead meat and poultry, while Copenhagen retained its predominance as the centre for disposal of livestock.

The transaction illustrated a distinct change in the policy of the London Joint Stock Bank, which until the late 'sixties had been unique among the large London joint stock banks in possessing only one branch office, that at Pall Mall. In general the London banks had very few branches, but the London Joint Stock Bank alone was content with so limited a representation. The pressure of competition, however, became too strong for this passive attitude, and a committee of directors in 1865 reported in favour of opening new branches. The bank had shown itself anxious

<sup>(1)</sup> *Bankers' Magazine*, 1867, pages 3 and 16.

to attract customers; in 1866 it had advertised its readiness to accept seven-day deposits at interest, from the unusually low limit for London of £10; and the board decided to seek them through the extension of its branch system. In January 1866 the first actual new branch<sup>(1)</sup> was opened in Chancery Lane "in view of the concentration of the Law Courts in the neighbourhood of Temple Bar". Four years later another successful project was carried out, when the business, premises and goodwill of the Southwark branch of the Alliance Bank were purchased. Then followed the acquisition of the Albion Bank Limited, while in 1872 a branch was opened at Paddington after consultation with the chairman and secretary of the Great Western Railway.

This short spurt brought the total of branches up to five, and with these the London Joint Stock Bank rested content for ten years, a cautious policy common at that time to all but one<sup>(2)</sup> of the large London joint stock banks. One reason for the general concentration upon London business lay in the rapid development of banking operations peculiar to the city. In at least one of these special developments the London Joint Stock Bank played a prominent part. During the early years of the nineteenth century Paris had held pride of place as the principal international banking centre, but subsequently London steadily overtook its continental rival. Britain, with her long start in industrial development, her widespread Empire and her mounting wealth, gave to London an ever-increasing importance in international finance. The results were seen, as an example, in the eagerness with which the London Joint Stock Bank sought overseas connections, particularly in Canada, from its earliest years, venturing without hesitation into this complex field of activity. After the suspension of specie payments by the Bank of France in 1848 the London banks became still busier in overseas affairs. More and more bills of exchange were domiciled in London, and sterling strengthened its position as a means of international exchange. It will be recalled that a feature of the "limited liability" boom in the early 'sixties was the establishment of many banks in London for the purpose of conducting overseas business. Again, the London Joint Stock Bank a decade before had found it necessary to set up a directors'

<sup>(1)</sup> The Pall Mall branch had been founded upon the business of a private firm. See chapter IX.

<sup>(2)</sup> The London and County Bank alone established a branch system extending into the provinces, having in 1863 as many as 128 branches, though nearly all of them were within the sixty-five miles radius of London.

"committee for foreign and colonial correspondence". In 1868 the London banks were considering a proposal for increasing the number of foreign exchange market days to three a week, and the suggestion was made, though then rejected, that enough business existed to justify a daily exchange. These occurrences showed the trend of events. Finally, the Franco-Prussian war dealt a staggering blow at the importance of Paris, and thereafter London became the unchallenged world centre of international finance. It was natural, therefore, that the large financial operations of war and post-war years should be conducted mainly through London, and that the London banks should be required to play a part in extending this side of their activities.<sup>(1)</sup> The London account of the Government of the North German Confederation was with the London Joint Stock Bank, which thus undertook the arrangement of several foreign loans. During 1871, for example, £6 millions of North German Confederation five per cent Treasury Bonds were issued by the London Joint Stock Bank, and a year later repaid through the same agency. Then again, a part of the indemnity imposed upon France was paid by means of sterling bills negotiated through the London Joint Stock Bank, notwithstanding strong competition from long-established private bankers of international repute. Furthermore, the adoption of the gold standard by Germany, accomplished largely by the aid of indemnity receipts, necessitated calling upon the resources and experience of London. The London Joint Stock Bank was employed as agent for the purchase of gold and as intermediary in arranging for melting down the old German silver currency. Upon the establishment of the Imperial Bank of Germany as successor to the Royal Bank of Prussia in 1875, the London Joint Stock Bank, which had long enjoyed the confidence of the Prussian bank, was appointed as English agent for the new central bank. As might be expected, the expansion of foreign business—which may have been in part responsible for the neglect of the possibilities of branch extension—was reflected in the figures of the London Joint Stock Bank. The total for deposits and acceptances rose from £13½ millions in 1869 to £21 millions three years later. Although this is an inaccurate index, because of the inclusion of acceptance liabilities, it appears

<sup>(1)</sup> A. S. J. Baster: *The International Banks*. On page 247 he provides a table showing that several of the joint stock banks in London, including the London Joint Stock Bank and the City Bank, were represented on the boards of banks for foreign trade.

to justify the contemporary assumption that the account of this foreign government ran into three or four millions. Nor is it surprising to find that the rapid growth of London's international financing aroused anxiety for the safety of the banking system in the event of any sudden and unexpected demand from abroad for ready cash.<sup>(1)</sup>

The direct placing of foreign balances in London was a natural result of England's increasing share in the financing of foreign trade. Even apart from this special development, however, London banking retained many characteristics sharply distinguishing it from banking in the provinces, while the structural division between the two had not yet been broken down. It was thought unprofitable for the older country banks to open in London, for by so doing they would have lost even their restricted rights of note issue; on the other hand, a London bank attempting to establish branches in the provinces would in most places have been faced by competition from local banks having all the advantages of an established note circulation. Right down to the publication of "Lombard Street" in 1873, London banking was looked upon as distinct from country banking—the title of George Rae's classic, published in 1885 as "The Country Banker", is a further indication of the cleavage—and it was not until the last quarter of the century that the two systems began to come together, though a notable exception to the general rule had arisen long before in the National Provincial Bank.<sup>(2)</sup>

The London Joint Stock Bank, exclusively a metropolitan institution, was among the very last to recognize the trend, and in these earlier stages of the process gained distinction as a staunch upholder of tradition. Its attitude was well expressed in relation to the "reserved liability act" of 1879. So unsettling had been the repercussions in London of the crisis of the preceding year that the other joint stock banks immediately proposed a concerted re-registration under the provisions of the Act. The London Joint Stock Bank declined the invitation, thus deferring a desirable change, and it was left to one of the younger banks to lead the way. In January 1880 the City Bank raised its nominal capital from £2 millions to £4 millions, the additional

<sup>(1)</sup> This estimate of the position and consequent uneasiness were expressed by Walter Bagehot in his *Lombard Street* (1873).

<sup>(2)</sup> Although the National Provincial Bank possessed offices in London from the date of formation, these were purely administrative in function until 1866, and the banking business was strictly confined to the provinces.



£2 millions being "reserved" as callable only in the event of liquidation. The Capital and Counties Bank soon followed this courageous example, and after some hesitation, largely due to the reluctance of the London Joint Stock Bank to make the change, the principal London banks registered under the new Act in 1882. Thus the London Joint Stock Bank itself increased its nominal capital to £12 millions, of which £6 millions constituted reserved liability. Incidentally, the figures adopted provided a somewhat distant protection to shareholders, and not for many years was limited liability carried to its logical conclusion by the issue of fully paid bank shares with no reserved liability. The Act of 1879 brought about the publication of balance sheets, which, while it marked no change in general London practice, gave a clearer indication of relative strength and importance among provincial banks. Moreover, the unwillingness of some provincial banks to register under the Act placed them at a disadvantage with more progressive rivals, reflected particularly in a decline in market prices for bank shares bearing unlimited liability. In these ways the adoption of limited liability helped indirectly to bring about the numerous fusions which marked the closing decade of the century. Naturally, the first London banks to join forces with provincial companies were those whose short histories began with the limited liability boom period. They possessed the advantages of seats in the London Clearing House and established positions in London banking, but at the same time they were comparatively small, and thus more likely to come to terms with large provincial institutions.

The first of the banks to lose its separate identity was the Metropolitan Bank, which, weighed down by bad debts inherited from its unfortunate predecessor, had made heavy weather for many years, and on more than one occasion had only just managed to avoid shipwreck. After paying moderate dividends from the date of reorganization, 1867, it was announced five years later that large losses had been incurred and that one-third of the deposits had been withdrawn. At the ensuing general meeting an irate body of shareholders strongly criticized the policy of the board, and Sir Robert W. Carden, as chairman, found himself once again in the centre of an internal brawl. The stormy gathering was not content until substantial changes in the board had been promised, and the results of subsequent investigation

amply demonstrated the need of overhaul. It was discovered that the worthless assets exceeded £100,000, that re-discounts were as high as £250,000, and that new capital was essential for the continuance of the bank.

The new board, headed by Alderman Charles Wetham, set to work to re-establish the position of the bank, and met with moderate success, for in two years the practice of re-discounting had been brought to an end. For some years the bank struggled on, striving to reduce its frozen assets, but the difficulties of 1878 delivered yet another staggering blow. Far more robust institutions collapsed beneath the pressure of that year, and there was little hope for the overburdened Metropolitan Bank. Once more practically the whole of the capital was swept away, and again a complete reconstruction was undertaken. This time it emerged under the title Royal Exchange Bank Limited, with a paid-up capital of less than £60,000, mainly drawn from calls upon the long-suffering shareholders of the old Metropolitan Bank, and deposits only slightly over £100,000. The new title did not bring new fortune. No dividends were paid until 1884, and only four per cent thereafter. The total of deposits dwindled, even from the low figure at which they had begun, until in 1888 they hardly exceeded the paid-up capital. Yet in spite of this unfortunate decline the bank still possessed one invaluable asset, a seat in the London Clearing House. Various provincial banks were by now seeking a means of entering London with a view to avoiding agency costs and obtaining the profits of direct participation in London banking. The Royal Exchange Bank, for all its chequered career, presented a way of entry for a strong country bank. The opportunity was seized by the Birmingham Banking Company Limited, which in 1889 entered London by absorbing the Royal Exchange Bank,<sup>(1)</sup> so following a lead set by Lloyds Bank five years earlier. The name selected for the combined institution was Metropolitan and Birmingham Bank Limited.

Similarly, the Central Bank of London was drawn into the movement. In the years following the change of title a substantial business had been built up. The bank's strong connection in active trading centres of the east end formed a nucleus of business

<sup>(1)</sup> The Birmingham Banking Company purchased the business of the Royal Exchange Bank for £60,777, the amount of its paid-up capital. Shareholders in the Royal Exchange Bank received cash or Birmingham Banking Company shares at the market price of £15 per share.

which developed through the original branches at Whitechapel, Shoreditch and Mile End. At first progress was difficult ; deposits did not reach £1 million until 1877, although during the preceding two years the bank had cast a wider net by opening branches at Blackfriars, Newgate Street, Tottenham Court Road and Clerkenwell. Not for six years were any additional branches opened, and then two more were established in Shaftesbury Avenue and Bethnal Green. The last of these arose out of the disappearance of a curious type of business. Since 1882 the Central Bank of London had operated a sub-branch at Bethnal Green, but strong competition had been encountered from an entrenched local firm known as the Bethnal Green Bank. This small private bank provided a livelihood for a Mr. Bradbrook, a pawnbroker, who had made the best of his opportunities and registered in middle life as a banker. Unhappily, he appears to have failed to observe with sufficient precision the limits of his new trade, and in 1889 this unusual representative of London banking failed. The Shoreditch branch of the Central Bank of London arranged to take over the business, allowing the unfortunate customers five shillings for each pound of their deposits until the assets of the private bank could be realized.

In spite of these late efforts in branch extension, the Central Bank of London remained a small bank, and in 1889, with a capital of £154,000 and a reserve fund exceeding £135,000, its deposits amounted to approximately £1½ millions. It was an admirable institution of its kind, enjoying a well-deserved reputation for stability as well as the privilege of a seat in the London Clearing House; yet it was hardly large enough to survive a period crowded with amalgamations. About this time the Midland Bank was seeking an entry into London, and saw in the Central Bank a partner eminently suitable both as to size and reputation. The subsequent negotiations illustrate the strength derived from an established position in London. Although the Midland Bank had already carried through eight amalgamations, and was more than three times as large as the Central Bank of London, it was the London bank that imposed conditions. The directors made it " a *sine qua non* that the Head Office be in London, and that the general meetings of shareholders be held half-yearly, viz., the January meetings in Birmingham and the July meetings in London ".<sup>(1)</sup>

<sup>(1)</sup> This practice was abandoned in 1912 in favour of annual meetings, in London.

Again, the solicitor of the London bank objected to the constitution and regulations<sup>(1)</sup> of the Midland Bank, stating that they did not give power for purchase or amalgamation with another bank. This opinion, upon being sustained by the Birmingham bank's solicitors, led at once to the substitution of a modern memorandum and articles. The conditions, then, were not such as to deter the Midland. Financial terms<sup>(2)</sup> were readily agreed upon, and in 1891 the amalgamation was accomplished. The new head office of the Midland was now 52 Cornhill, London, and the change of name to London and Midland Bank accorded recognition to the broadening of its geographical range of operation. The board was rendered fully representative by the appointment to it of W. G. Bradshaw,<sup>(3)</sup> the chairman, and two other directors of the Central Bank of London.

Simultaneously the Midland Bank strengthened its footing in London by absorbing the private bank of Lacy, Hartland and Woodbridge. This long-established firm had placed a branch in the Metropolitan (formerly Copenhagen) Cattle Market, Islington, soon after its opening in 1855. Similarly an office had been established in the foreign cattle market opened at Deptford in 1872, while three other branches had been inaugurated at Bermondsey, Brentford and Southall. The partnership changes within the firm illustrate the progressive association of town with country. In 1875 Frederick D. Dixon-Hartland (later Sir F. D. Dixon-Hartland, M.P.), both of whose parents were connected with old-established country banks, joined the firm.<sup>(4)</sup> Five years later there was admitted to partnership H. W. Woodbridge, a member of an Uxbridge banking firm of long standing, Hull, Smith and Co., founded in 1791, and his admission brought about an association between the two firms, though the businesses remained quite separate. The Brentford and Southall branches of the London partnership were transferred to the Uxbridge firm. At the time of absorption by the Midland the deposits of the private firm amounted to £170,000, supported by a capital of £20,000 and

<sup>(1)</sup> Adopted in 1886.

<sup>(2)</sup> The terms were: two Midland shares (of £60, with £12 10s. paid up) for five Central Bank shares (of £10, with £5 paid up); alternatively, shareholders of the London bank were to receive £15 each per share.

<sup>(3)</sup> Mr. Bradshaw is still a deputy chairman of the Midland Bank.

<sup>(4)</sup> His father was the Hartland of Hartland, Prior, Proctor and Easthorpe, bankers in Gloucestershire and Worcestershire, until absorbed by the Gloucestershire Banking Company in 1836, while his mother was the daughter and co-heiress of Thomas Dixon, partner in the firm of Gales, Dixon and Massey, one time bankers at King's Lynn, Norfolk.

a reserve of £5,000. In the contract for purchase goodwill was valued at £30,000.<sup>(1)</sup>

In an earlier chapter reference has been made to the Baring difficulties of 1890, which were overcome mainly by joint action on the part of the banks. Under the leadership of the Bank of England a number of them subscribed to a joint guarantee of Barings' liabilities,<sup>(2)</sup> and this action was entirely successful. Before the difficulties of Barings were known to the general public the severest potential dangers had been averted, and the resulting disturbance was confined strictly to London, while the eminent position of the famous firm was shortly restored. Such was the strength flowing from a banking system acting in closer concert than had been possible before. But the incident, important as it was, represented a special effort for a special occasion, and should not be taken as an unqualified guide to the degree of consolidation that had been achieved. The process of structural simplification had still a long way to go both in London and in the provinces.

The Imperial Bank and the City Bank preserved their individual existences for only a few more years. They lost their identities, not through the union of London and country, but in the general movement of structural integration within London itself. The Imperial Bank, which was still small, though well-managed, did not long survive the pressure towards amalgamation following upon the Baring crisis. Two branches were opened in the Metropolitan area before 1871, and the business steadily expanded, largely as a result of the valuable stock exchange connection. Deposits grew from £1½ millions in 1870 to more than £3 millions twenty years later, and the reserve fund, already substantial, was trebled within twelve years. Nevertheless, despite a broadening of branch representation, progress could not be maintained. Indeed, after 1890 there were disheartening signs of stagnation, and deposits began to decline. It is possible that, although general causes lay at the root of this change, a particular and personal reason was playing a part.

<sup>(1)</sup> F. D. Dixon-Hartland was elected to the board of the Midland.

<sup>(2)</sup> See chapter I. Within one day over £6 millions of Barings' liabilities had been guaranteed, and eventually a total of contingent liabilities amounting to £17½ millions was assumed by bank signatures. The London Joint Stock Bank participated to the extent of £500,000, while the City Bank guaranteed £250,000, but the response was by no means confined to London. Banks as far out as the North and South Wales Bank contributed their quota to the general effort to avert panic.

It was nearly thirty years since Andrew Lusk had founded the Imperial Bank, and as chairman of the board he had remained in close association and full control from the first day of opening. Public honours were added to his commercial distinction, and in 1873 he was chosen Lord Mayor. A firm believer in the wisdom of extending limited liability to banking, he used his position as Member of Parliament for Finsbury in pressing forward progressive banking legislation such as the Act of 1879, and as a staunch individualist he consistently opposed a slavish following of the Bank of England rate by the London joint stock banks. It was inevitable that his vigorous personality should impress itself upon his bank. Sir Andrew Lusk, Bt. was the Imperial Bank Limited, and had been so for the full thirty years of the company's life. By 1892, however, he was in his late seventies, and could not fail to recognize that the time had come to consider arrangements for the future. Nor could the lesson of 1890 have passed without effect upon the outlook of relatively small banks. He was doubtless well aware of the accelerating movement towards amalgamation, and saw that the choice for his bank lay between absorbing and being absorbed. It is not altogether surprising that he chose the second course when, in 1893, the London Joint Stock Bank offered a generous price for his bank.<sup>(1)</sup> At the time of absorption the Imperial Bank operated eleven branches and held deposits amounting to over £2 millions; it had a paid-up capital of £675,000 and a reserve fund of £200,000.

The City Bank, the largest of those absorbed at this period, resisted the process of amalgamation for six years longer, but eventually found itself faced with problems similar to the difficulties of its smaller contemporaries, and ultimately solved them in the same way. The record of the bank was one of steady progress and good dividends, with hardly a setback of any importance. True, the stringency of 1875 brought losses from unpaid bills, but the deficiency was easily met from the reserve fund, which within two years was restored to its former level by a reduction in the dividend from ten to eight per cent. Again, a small loss resulted from the City of Glasgow Bank failure, but this time the surplus of current profits provided for the deficiency without recourse to the reserve fund or reduction in dividends. This loss, small as it was, made a deep impression, and probably

<sup>(1)</sup> See page 319.

was in some measure responsible for the City Bank's early adoption of "reserved liability".

Thereafter the bank for a long period only just held its own. It encountered the general experience of smaller banks as the century drew to a close—a seemingly inescapable tendency towards stagnation. Deposits, which in 1887 amounted to more than £5 millions, were still below £6 millions seven years later, although the paid-up capital had been increased to £1 million in 1883 and the reserve to £500,000 in the same year. The complaint was not difficult to diagnose. Competition from larger banks, particularly those operating both in the provinces and London, was growing keener, and new business went mainly to the recently amalgamated banks. The City Bank made some effort to escape from the difficulty by opening branches in London and the suburbs. Eleven branches were established, reaching as far out as Croydon and Bromley, and in terms of deposits the policy was not wholly unsuccessful, for by 1897 the total exceeded £8½ millions. It happened, however, that the decade following 1890 was relatively unprofitable for banks generally, with low money rates and sluggish trade. In 1894 the City Bank was obliged to reduce its dividend to eight per cent, after having paid ten per cent for twenty consecutive years, and, although the higher rate was resumed in 1897 with the return of more prosperous conditions, the relapse gave a warning which could not be disregarded. The directors began seriously to consider the possibility of amalgamation.

Meanwhile the Midland Bank was growing apace. Since the fusion of London and country, in 1891, the amalgamation policy had been pressed forward, and seven additional provincial banks had been absorbed, bringing the total of deposits above £21 millions. The business, however, was ill-balanced, for a disproportionate share of it still lay in the provinces. "Our country business", observed the chairman in October 1898, "is altogether out of proportion to our Metropolitan business", and there was some anxiety to rectify this lack of balance by increasing the London connection. In addition, the growth of business forced the pace for the large bank. The head office at 52 Cornhill, inherited from the Central Bank of London, was proving far too small, and, as it was impossible to extend either to left or right, it had been necessary to engage a suite of offices on the opposite side

of the road. Even this unsatisfactory expedient soon proved insufficient for the growing bank, and the pressure of office space became an acute problem. Suitable premises in the City were practically unobtainable, though the bank made every effort to find accommodation.

The necessary qualifications for the subject of a further amalgamation were amply fulfilled by the City Bank, with its excellent London business and spacious head office in Threadneedle Street. A further favourable factor lay in the probability that the Midland knew considerably more than possible rivals as to the high quality of the City Bank's business. It was generally known that, when the Midland Bank had been considering an entry into London, the first prospective ally to be approached had been the City Bank. The proposed negotiations met with discouragement because the Midland, at that time no more than a fair-sized provincial bank, was considered too small to render fusion desirable. It is said that E. H. Holden, then sub-manager of the Birmingham bank, when told of the final decision by a City Bank director, made but one comment: "I will call again later." After seven years he redeemed his promise; he called again in 1898. But now the conditions were changed; the Midland Bank was a metropolitan and provincial institution nearly three times as large as the City Bank, and a proposal for amalgamation with the progressive company could not be lightly dismissed even by a well-established London bank. When, therefore, Holden made his second approach, as general manager of the Midland Bank, negotiations were opened at once. The terms finally settled gave an excellent price for the City Bank shares,<sup>(1)</sup> but Holden would have concluded an even more generous agreement had it not been for the strong protest of a section of the directorate, supported by a few large shareholders. The chairman's speech at the amalgamation meeting explained in a few words the qualities which made the City Bank such a desirable ally. In the first place, this was the largest amalgamation which the Midland Bank had ever carried through; secondly, an immediate expenditure of perhaps £200,000 upon building a new head office was saved; and thirdly, when the transaction had been completed the reserve of the enlarged bank was equal

<sup>(1)</sup> The terms were: two and two-fifths Midland shares (of £60, with £12 10s. paid up) for five City Bank shares (of £40, with £10 paid up), providing a bonus, measured by market prices, of £1 8s. on each City Bank share as well as a considerably higher rate of dividend.



to its paid-up capital, a ratio which Holden had long worked to achieve. At the time of amalgamation the City Bank, with its twenty-one branches, held deposits of nearly £9 millions, on a paid-up capital of £1 million and a reserve fund of £500,000. "The deposits of the London City and Midland Bank [so ran the new title] will amount to at least £32 millions", the chairman stated. "That will make us in point of size . . . the fourth bank in the Kingdom. Our reserve fund will amount to £2,200,000; that is the largest reserve fund of any bank in England, the Bank of England alone excepted."

By the close of the century, then, considerable progress had been made towards structural unification in London banking. The nine banks whose histories have here been followed had combined as shown on the chart on page 277, and they were by now fused into three institutions—the Midland, the London Joint Stock and the Metropolitan. Between these three, however, there were marked differences in size and type. In 1900 their relative positions were as follows:—

	(£000 omitted)			Advances	Number
	Capital paid up	Reserve fund	Deposits	and bills	of full branches
London City and Midland	2,523	2,523	37,845	23,893	315
London Joint Stock ...	1,800	1,200	17,165	14,316	35
Metropolitan (of England and Wales) ... ..	500	350	7,902	5,092	132

The Midland was by far the largest, but when, only ten years earlier, it had first ventured into London, it had arrived as a provincial bank much smaller than the London Joint Stock Bank, less important than the City Bank, and only just able to rival the Metropolitan and Birmingham Bank. A decade crowded with amalgamations had brought it into the front rank of English banks. By contrast, the London Joint Stock Bank never set foot outside the strict bounds of London until the twentieth century. When the bank's fiftieth anniversary was reached there were only six branches, all in London, and of these three were based upon business taken over from old private banks. It was becoming apparent from balance sheet figures that failure to expand by amalgamation or by branch extension was causing the bank to fall back before its more progressive competitors. The conditions which had driven smaller banks into union with complementary or competitive undertakings were beginning to take effect even on this older

and larger institution, which, however, drawing strength from a fine business and high prestige, continued for years longer to defy the forces of integration. Nevertheless, in 1892 it did them the honour of taking powers, by altering the old deed of settlement, to absorb other banks. Moreover, it immediately acquired the Imperial Bank. This absorption, while showing the London Joint Stock Bank's awareness of the need for enlarging its range, did little to alter the nature of its business, which remained confined to London and the suburbs. A peculiar feature of the amalgamation was that, although six directors of the Imperial Bank were elected to the board of the amalgamated bank, the purchase was accomplished by payment in cash, and not by the usual exchange of shares. The purchase price was £1,035,000,<sup>(1)</sup> while a sum of £115,000 appeared as an asset, under the title "Imperial Bank purchase account", in the balance sheet of the combined bank, and was reduced by yearly transfers from profits until finally written off six years later. Some efforts at branch extension followed some years after the absorption of the Imperial Bank. Five new branches were opened in 1898, four were established in the following year, and thereafter the process continued at an average rate of one new branch annually for the next nine years. Most of them were strictly London branches, but later the bank was venturing as far out into the suburbs as Kingston-on-Thames and Croydon. In comparison with the ambitious programmes of other banks in the same period, this was but a modest expansion.

Yet the policy of amalgamation, though now almost an essential part of the progress of leading banks, was not without its dangers, and much depended upon skill and judgment in negotiations. Not only was the question of price a delicate matter, but also there was the possibility of buying an undisclosed loss, admittedly a rare occurrence, yet not so remote as to be entirely disregarded. Such a mischance befell the Metropolitan and Birmingham Bank when it purchased the National Bank of Wales in 1893.<sup>(2)</sup> A year previously the South Wales Union Bank<sup>(3)</sup> had been absorbed, and the second Welsh amalgamation added to the preponderant concern of the bank with its country business, and did little to develop the connection in London. Moreover,

<sup>(1)</sup> The 45,000 shares of the Imperial Bank were £15 paid up, and the shareholders received £23 per share.

<sup>(2)</sup> See chapter III.

the purchase of the National Bank of Wales brought a setback that made any form of amalgamation unattractive in the eyes of the Metropolitan and Birmingham Bank for several years. Fortunately, the bank was in a sufficiently strong position to bear the heavy loss, so that its principal effect may be counted as the discouragement of further efforts along similar lines. Following upon the Welsh absorptions, the bank, now possessing one hundred and fifteen branches, changed its name to Metropolitan Bank (of England and Wales) Limited; it then controlled £6 millions of deposits, with a capital of £470,000 and a guarantee fund of like amount. In 1895 the guarantee fund fell to £350,000, while the asset item for "goodwill" on account of the National Bank of Wales remained at £112,000. Nevertheless, dividend payments declined but slightly—from fifteen to twelve-and-a-half per cent—and deposits slowly increased. By 1902 the "goodwill" item had been written off from profits, and deposits had risen to over £8 millions, though it was not until 1908 that the guarantee fund was restored to its former amount of £450,000. By this time the bank could fairly be said to have come to the end of its long series of major troubles. Two years later, with confidence regained by eighteen tranquil years, one more small absorption was carried through. The private bank at Kingston of Davies, Banks and Co., which had long withstood the trend towards amalgamation, was bought for £29,500.<sup>(1)</sup> When this was completed the deposits amounted to nearly £11 millions, branches numbered one hundred and fifty, and, with a paid-up capital of £550,000 and a reserve of £450,000, the Metropolitan Bank (of England and Wales) was a fair-sized and highly reputable bank conducting a business largely in the midlands, with an important extension into South Wales and a head office in London. Yet no bank can have sustained, in all three areas of activity, a more disheartening series of misfortunes than had fallen to the lot of the Metropolitan Bank.

During the previous decade the vigorous policy of the Midland had shown no relaxation. Further amalgamations were successfully negotiated, and with this process was combined a rapid extension of branches under a special committee of the board of directors. The conception of a bank represented throughout the kingdom was taking definite shape. Notwithstanding the strength which this ambition was to attain, it should not be

<sup>(1)</sup> For further details of Davies, Banks and Co. see page 175.

forgotten that many proposals for amalgamation were entertained and rejected as unsuitable in one way or another. As an example may be quoted the abortive negotiations between the National Bank of Wales and the Midland,<sup>(1)</sup> which refused to offer terms acceptable to the directors of the smaller institution. The Midland, not to be excluded from so important an industrial region as South Wales, thereupon opened branches in most of the principal towns of the area. By 1910 the deposits exceeded £73 millions, and the number of branches reached 540, with 149 sub-branches. The evolution of the nation-wide bank was rapidly reducing the number of competitors, and tending to standardize banking costs and methods throughout the country. The strengthening of the banking system as a whole was seen when the crisis of 1907 brought widespread financial disaster in the United States of America, but caused little disturbance in London beyond a rise in the Bank rate to seven per cent.

The London Joint Stock Bank still clung to its exclusive status as a London institution, and the price paid for caution was expressed in the volume of business. Deposits, which amounted to nearly £19 millions at the turn of the century, barely held that level, and fell to £17 millions by 1907, while the dividend declined from twelve to eleven per cent. It was recognized at last that an infusion of vitality could be secured only by following the general trend towards direct association with the provinces. The bank had held back as long as possible and longer than desirable; it was among the last of the metropolitan banks to submit to the unrelenting pressure of structural evolution. In January 1909 a provisional agreement was concluded for amalgamation with the York City and County Banking Company Limited.<sup>(2)</sup> These two tenacious representatives of separatist banking in London and the country were thus brought by the genial suasion of common interest to combine in a single institution. Yet it was an odd, ill-assorted partnership in some ways, for the dominant partner was accepting responsibility in a distant field of which it had little knowledge and no experience. The transaction marked none the less a notable endeavour to join in the process of vigorous concentration.

The amalgamation brought the London Joint Stock Bank—the name was unaltered—into the ranks of the ten largest banks

<sup>(1)</sup> See page 107.

<sup>(2)</sup> Its history is related in chapter VII.

in England and Wales, with over 250 offices and £34 millions of deposits. It was still some way behind those large banks which had pressed most successfully the policy of assimilation—the Midland, for example, showed a total of deposits exceeding £66 millions. The refusal to be drawn too deeply into the current of amalgamation was to be expected from a bank renowned for its caution, but at this stage the movement was one to be entered upon whole-heartedly or not at all. The London Joint Stock Bank made no further strong endeavour to venture into new areas, and did not attempt to follow the enterprising leaders of the banking world in their individual efforts each to acquire a country-wide system. With the single major extension the directors rested content, developing the two arms of the bank in London and the north by increasing the number of branches within the areas covered rather than by attempting to extend further afield, though one or two branches were opened in Norfolk and the eastern counties. Nevertheless, when the leading banks offered their customers fresh services the London Joint Stock Bank was not far behind. In 1909 the directors announced that the bank was prepared to act in the fiduciary capacity of executor or trustee, while about the same time they appointed a committee to develop foreign exchange business. The annual report published early in 1910 was printed in French as well as in English. A year later, when the reorganization of the Yorkshire Penny Bank was carried through,<sup>(1)</sup> the London Joint Stock Bank subscribed one-eighth of the capital of the new company. In these ways the bank was keeping abreast of the times, and, if it was not so prominent as some of its contemporaries in the growth of figures, it maintained its position as a first-class London bank with a strong provincial connection. In 1914 it made a curious, though relatively unimportant, extension. It bought the Portsmouth branch of the Bank of England, taking over, along with the premises, the business of providing currency for the weekly wage disbursements at the dockyards.

The amalgamation movement had by this time taken another turn, typified by the fusion of the London and County Bank and London and Westminster Bank in 1909. The union of two great London banks, both pioneers of joint stock banking in the metropolis and one possessing an extensive branch system, was a recognition of the growing importance of size in an era of

<sup>(1)</sup> See page 237.

increasing competition. In 1913 the Midland attempted a response to this new challenge by opening negotiations for fusion with the London Joint Stock Bank, but the proposal fell through—though it shortly proved to be not dead but dormant—on a disagreement as to terms, and the progress of the Midland was deflected to other amalgamations. Most prominent among these was a fusion with the Metropolitan Bank in 1914.

The Metropolitan was by this time in a position where there was little possibility of progress and some likelihood of retrogression. Moreover, during the preceding few years depreciation of investments had begun to press heavily upon the narrowing margin of profits. After 1909 a total sum of nearly £200,000 was applied from profits to covering these losses, and, though dividends remained at 15 per cent, in 1913 the rate was maintained only by drawing upon the "guarantee fund" to the extent of £70,000 to meet depreciation in investments. It was clear that a decline in profits was to be anticipated, and in circumstances such as these the bank welcomed the offer of amalgamation. The proposal was quickly carried to fulfilment in June 1914.<sup>(1)</sup>

There remained two banks only of those whose stories have been told: the Midland and the London Joint Stock. Already one suggestion of fusion between the two had been propounded, and it is not unlikely that negotiations would have been resumed earlier, had it not been for the outbreak of war in August 1914, which checked the progress of this fresh stage of the amalgamation movement. It was, however, no more than a brief halt, and soon the march towards consolidation was resumed. One of the early steps in the revival of activities was taken in 1918, when negotiations were reopened for amalgamation between the London Joint Stock Bank and the Midland, provisional terms being announced in February. The proposed fusion of these two important banks, following as it did upon a period of quiescence, aroused intense interest, which is well understood when the following relative figures for December 31, 1917 are observed:—

	(£000 omitted)				Number
	Capital paid up	Reserve fund	Deposits	Advances and bills	of full branches
London City and Midland ... ..	5,189	4,343	220,552	116,209	673
London Joint Stock	2,970	1,325	57,979	16,996	179

<sup>(1)</sup> The terms were: eleven Midland shares (of £12 with £2 10s. paid up) for seven Metropolitan Bank shares (of £50 with £5 paid up). Three directors of the Metropolitan Bank joined the board of the Midland.

Negotiations between such large undertakings naturally proved delicate, and the price eventually paid by the Midland<sup>(1)</sup> was a liberal one, granting to shareholders in the "Joint" a considerable increase in dividend. The deposits of the new combined bank were placed at nearly £300 millions, a figure which made it the largest bank in the world and the leader by a considerable margin among the English banks. Moreover, the combining of the assets of the two banks established a better balance between investment holdings and advances and bills. Small wonder that the amalgamation was looked upon as marking the climax of Sir Edward Holden's banking career.

Although the complex negotiations were quickly carried to the stage of provisional agreement, the full completion of the arrangements was delayed for several months by the deliberations of the Treasury Committee on Bank Amalgamations.<sup>(2)</sup> In accordance with the findings of the Committee, however, the transaction was carried through with official approval in July 1918. The importance attributed to the goodwill of the London Joint Stock Bank was indicated by the announcement that, although many of its branches were in the same town or neighbourhood as those of the Midland, they would all remain as separate offices. Further, the name of the combined institution was lengthened to incorporate the distinguishing word of the predominantly London institution's title. The entire body of directors of the "Joint" became part of the enlarged board of the London Joint City and Midland Bank, Sir Edward Holden remaining as chairman and managing director. Scarcely a year was to elapse, however, before death removed the outstanding artificer of the modern structure of English banking.

<sup>(1)</sup> The terms were: four Midland shares (of £12, with £2 10s. paid up) for one London Joint Stock Bank share (of £100, with £15 paid up).

<sup>(2)</sup> See chapter I.

APPENDIX TO CHAPTERS IX AND X

EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

		(£000 omitted)				
Name of bank		Capital paid up	Reserve fund	Deposits	Advances	Bills
<b>CENTRAL BANK OF LONDON</b>						
1870	...	100	5	467	338	
1880	...	100	30	1,135	258	474
1890	...	156	141	1,706	516	425
<b>CITY BANK</b>						
1860	...	300	33	2,469	2,382	
1870	...	500	95	2,436	4,109	
1880	...	756	280	4,000	2,155	1,543
1890	...	1,000	500	6,201	3,683	1,696
<b>IMPERIAL BANK</b>						
1870	...	449	50	1,435	811	714
1880	...	675	105	2,260	1,514	739
1890	...	675	185	3,051	1,885	802
<b>LONDON JOINT STOCK BANK</b>						
1840	...	445	42	1,171§	1,472*	
1850	...	600	137	2,950§	3,235*	
1860	...	600	208	10,563§	10,308*	
1870	...	1,200	434	17,315§	16,209	
1880	...	1,200	567	12,633	10,903	
1890	...	1,800	1,163	11,618	11,589	
1900	...	1,800	1,200	17,165	14,316	
1910	...	2,970	1,100	33,588	17,626	
<b>METROPOLITAN BANK (LONDON)</b> which became <b>ROYAL EXCHANGE BANK†</b> in 1879						
1870	...	200	10	543	613	

\* Including cash

§ Including acceptances

† Absorbed by Birmingham Banking Co. to form Metropolitan and Birmingham Bank, later Metropolitan Bank (of England and Wales). See next table in this appendix.



APPENDIX TO CHAPTERS IX AND X.—*contd.*

## EXTRACTS FROM BALANCE SHEETS OF BANKS DISCUSSED

		(£000 omitted)				
Name of bank		Capital paid up	Reserve fund	Deposits	Advances	Bills
<b>METROPOLITAN BANK</b>						
(OF ENGLAND AND WALES)—formerly Birmingham Banking Company (continued from appendix to chapter III)						
1890	...	330	330	4,182	2,340	693
1900	...	500	350	7,902	4,319	773
1910	...	550	450	10,334	6,154	571
<b>MIDLAND BANK</b>						
(continued from appendix to chapter III)						
1890	...	638	500	5,616	3,502	1,374
1900	...	2,523	2,523	37,845	19,774	4,119
1910	...	3,989	3,590	73,415	41,088	6,686

## CHAPTER XI

### THE WELDED WHOLE

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The last of the amalgamations of the Midland Bank was undertaken in 1918, but it took many years for the hurriedly absorbed banks in all parts of the country to be completely assimilated, and the process and its outcome are described in this chapter.

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THE transaction of 1918 marked the zenith and conclusion of the policy of extension by amalgamation. It is true that already a new phase of coalescence had begun in 1917,<sup>(1)</sup> when the Midland acquired the share capital of the Belfast Banking Company, but this was a development which operated to broaden the sphere of influence rather than to advance consolidation in banking. The process of structural unification reflected the trend of business organization in most of the leading industries of the country. Thus it has been shown, chapter by chapter, how one part after another of England and Wales was brought within the scope of the Midland, using as its core an institution which gained rapidly in strength with each new addition to its field of activity. For the first half-century of its life the little local bank, typical of scores of others all over the country, had plodded along its pedestrian course, rendering useful and moderately profitable services within its own circumscribed area. After fifty years it possessed only six branches, all in the near neighbourhood of Birmingham, and two of these had been acquired by belated absorption of small neighbouring private banks. Then came the change. In the succeeding thirty years bank after bank was absorbed, spreading the field of the Midland wider and wider, extending its representation throughout the greater part of England and Wales.

The geographical scope of expansion is notable. At first it was cautious in the extreme, reaching tentatively into nearby centres—Coventry, Leamington, Derby—a little farther step by step. But very soon, with gaining confidence and proved reliance upon country-wide facilities of communication and control, the speed of

<sup>(1)</sup> This phase is dealt with in the succeeding two chapters.

**DIRECT AMALGAMATIONS  
OF THE  
MIDLAND BANK**

<b>Date of absorption</b>	
1851	Bate and Robins, Stourbridge
1862	Nichols, Baker and Crane, Bewdley
1883	Union Bank of Birmingham
1889	Coventry Union Banking Company
1889	Leamington Priors and Warwickshire Banking
1890	Derby Commercial Bank
1890	Exchange and Discount Bank, Leeds
1890	Leeds and County Bank
1891	Central Bank of London
1891	Lacy, Hartland, Woodbridge and Co., London
1892	Manchester Joint Stock Bank
1893	Bank of Westmorland
1894	Preston Banking Company
1896	Carlisle City and District Banking Company
1897	Channel Islands Bank
1897	Huddersfield Banking Company
1897	North-Western Bank, Liverpool
1898	Oldham Joint Stock Bank
1898	City Bank, London
1899	City of Birmingham Bank
1900	Leicestershire Banking Company
1901	Sheffield Union Banking Company
1901	Yorkshire Banking Company
1905	Nottingham Joint Stock Bank
1908	North and South Wales Bank
1910	Bradford Banking Company
1913	Sheffield and Hallamshire Bank
1913	Lincoln and Lindsey Banking Company
1914	Metropolitan Bank (of England and Wales)
1918	London Joint Stock Bank

**AFFILIATED BANKS**

1917	Belfast Banking Company
1920	The Clydesdale Bank
1924	North of Scotland Bank

progress quickened ; the advance to Leeds marked the beginning of a more or less haphazard geographical spread. The bold assault upon London itself was an essential preliminary to more adventurous steps, and, working from the long-established financial centre, the invigorated institution spread in all directions ; first north-west, into Lancashire, Westmorland and Cumberland ; then, by a solitary southward excursion, to the Channel Islands ;<sup>(1)</sup> into the West Riding again ; to Liverpool and the heart of the cotton area ; accessions of strength were gained in London and Birmingham, and a new block of the midlands covered with an absorption in Leicestershire ; Sheffield and the principal industrial and agricultural parts of Yorkshire were next brought in ; Nottinghamshire and North and mid-Wales followed ; back to Yorkshire again, and thence into Lincolnshire ; further representation in the midlands and South Wales ; and finally, a great London consolidation, bringing with it added strength in Yorkshire, the north-east and north-west. Along with the widening geographical representation went a broadening of economic interest, encompassing every industry and trade and every variety of financial service. This crowded period of thirty years had seen the culmination of a process, long-extended but only lately quickening in speed, by which the scattered units of banking were knit together in a unified organization deriving strength from diversity of interest.

The story of the Midland is in essence the outcome of an irresistible trend in English banking, and to that extent is typical of a process leading to a system more simple in its structure and more responsive to central bank control than anywhere else in the world. The speed of the movement in the closing stages may, indeed, have been dictated by forceful personalities coming into command, by what appears the merest chance, of instruments for welding scattered units. It was far from a process of uniting equal forces, for some of the banks taken over were strained and tired, and others vigorous and healthy. The characteristic of the process, so far as the Midland is concerned, was that it embodied the rise to dominance of the joint stock system of banking. Almost all its important absorptions were of joint stock banks, and, even when every item of contribution is accounted for, private banking played a minor part in its construction. Its method of

<sup>(1)</sup> See Appendix A.

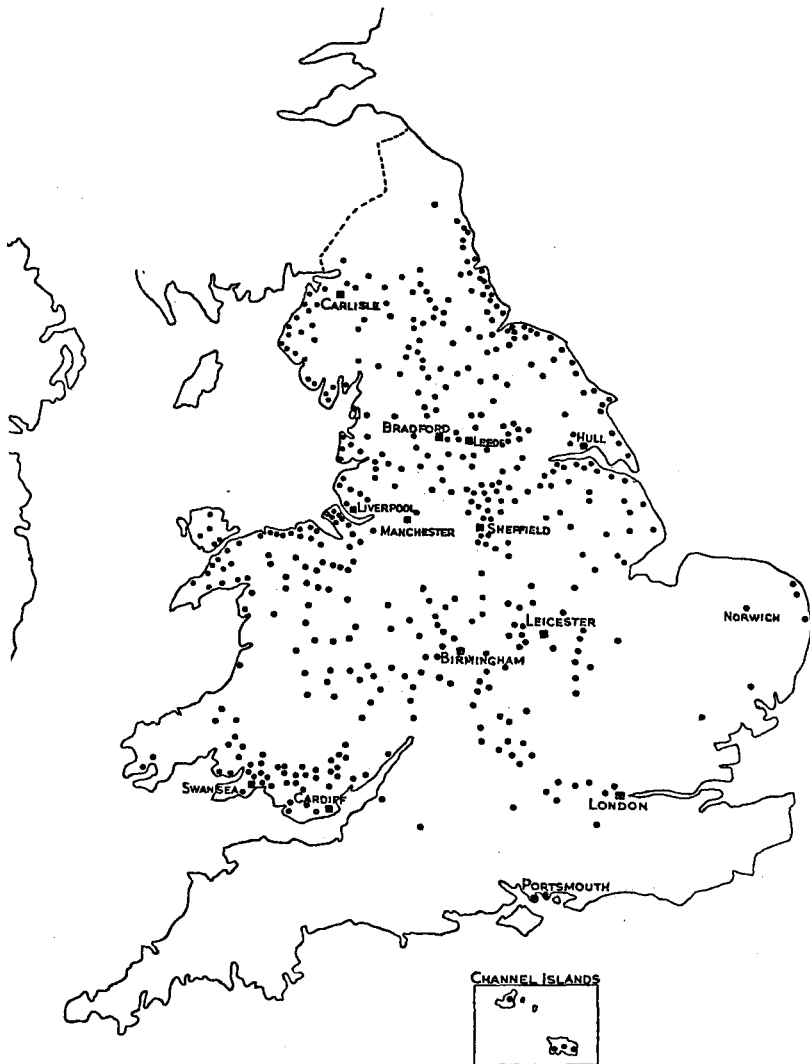
advance, however, was by no means confined to that of amalgamation. The circumstances under which consolidation took place—in particular, the compression of the process into a period of only three decades—made impossible any consistent regard for the principle of geographical selection. Competition between a few fast-growing institutions, jostling with each other to secure the adhesion of a rapidly dwindling number of independent banks, rendered the achievement of selective combination impossible in any complete sense. Moreover, economic development itself was by no means even, or moving in the same direction. The position is well illustrated by the story of the Midland, for it will be observed that, while strong representation had been secured in the midlands; in London, Yorkshire, the north-west and parts of Wales, not a single bank had been taken over in East Anglia or in the entire south of England. The map opposite shows more clearly than any description how woefully unbalanced the organization would have been on a basis of amalgamation alone. Apart from the Channel Islands, there would have been only three branches south of a line from London through Bath, and only six east of a line from London to the Wash, all nine resulting from the amalgamation with the London Joint Stock Bank in 1918. Roughly speaking, the bank would have been grossly over-balanced on the side of industry, with totally inadequate representation in the agricultural areas and those where the population was predominantly residential. Almost inevitably the bank would have reached the condition which, as recorded in earlier chapters, drove many a provincial bank into amalgamation; a condition of unrelieved over-extension in response to insistent calls for accommodation impossible to satisfy out of the restricted deposit resources available.

The danger of such an unhappy outcome of the consolidation process, though probably unforeseen in its early stages, was averted by vigorous branch extension, a method pursued in a small way by a number of banks referred to in earlier pages. All through the forty years of fusion branches were being opened in widely scattered centres, to fill the gaps left in the course of the amalgamation process. Branch extension, like amalgamation, began cautiously; the smaller neighbouring towns were entered first. Establishment in Leicester and Northampton, in 1889, marked a step towards wider representation just when the possibilities of amalgamation



*[From the portrait by James Gunn]*

**THE RIGHT HONOURABLE REGINALD McKENNA**



### MIDLAND BANK AMALGAMATIONS

THIS MAP DEPICTS THE STRUCTURE OF THE MIDLAND BANK AS IT WOULD HAVE BEEN IF NO NEW BRANCHES HAD BEEN OPENED. IT SHOWS ALL THE BRANCH SYSTEM SECURED BY THE PROCESS OF AMALGAMATION ALONE.

were beginning to find recognition; Sheffield followed a year later; and in the early 'nineties the first southward steps were taken, to Brighton, Bournemouth and Eastbourne; a strong assault on South Wales was made in 1893; and from that time onwards branches were opened thick and fast, spreading the bank's representation through every part of the country, though not until 1903 was East Anglia entered, with an office at Norwich. Thus branch extension made good the territorial deficiency of amalgamation; what was impossible by selection of alliances was accomplished by the compensating spread of branches. At the same time, branch extension enabled the rapidly coalescing banking system to re-shape itself in accordance with changes in the geographical direction of economic progress. In particular, the rise of the south to industrial importance demanded and received the support of a balanced banking system.

The attempt to achieve a stable relationship between lending and borrowing centres and between various types of economic activity was not the sole motive of branch extension. There was in addition the pressure to open branches with a view to securing a firmer foothold in towns where the bank was already represented. This aspect of joint stock banking development, indeed, exemplified the breach between joint stock and private banking methods. Generally speaking, the private banker had always been content, in an attitude of detached superiority, to await the approaches of customers needing the facilities which he alone could offer. The joint stock bank reversed the procedure, and began to seek customers by means of intensive branch representation. It was found necessary, for example, in a place as large as Birmingham, to open one or two local branch offices if customers were to be adequately served and business increased.<sup>(1)</sup> Later, as urban areas began to extend, suburbs to develop, and industrial undertakings to move further from the centres of established towns, the movement gathered speed, so that by the end of the century there were sixteen branches of the Midland—some, but by no means all, resulting from amalgamation—within the city boundaries of Birmingham, and 52 in the County of London. As a slight variant of the process, at a later stage still, branches were opened in areas which, though still rural, promised to undergo

<sup>(1)</sup> The first "town" branch of the Birmingham and Midland Bank was opened in Moseley Road in 1883. Other banks, for example the North and South Wales Bank, took similar steps considerably earlier.



early development as residential or industrial suburbs. Extension of this sort has been characteristic of the post-war period in the London district, so that by 1934 over 250 branches of the Midland were in operation in Greater London. It is naturally impossible to distinguish numerically between these lines of development, but the following table shows the relative contributions, at different periods, of amalgamation and direct branch openings to the total broadening of representation :—

## MIDLAND BANK

	Branches opened	Branches added by amalgamation	Branches closed	Branches open at end of period	
1836-79	...	1	2	—	3
1880-89	...	16	8	—	27
1890-99	...	111	149	8	279
1900-09	...	135	247	3	658
1910-19	...	274	517	5	1,444
1920-29	...	691	—	91	2,044
1930-34	...	126	—	60	2,110

The column headed "Branches closed" indicates a process of eliminating what might have been a source of economic waste through the contemporaneous progress of amalgamation and branch extension. The two forces were supplementary, and it was inevitable that they should overlap to some extent; yet the smallness of the figures indicates that amalgamation had the effect of rendering unnecessary much branch extension which otherwise might have taken place, with consequent excessive multiplication of banking offices. Some duplication, however, did occur, more particularly in the later stages of the process, when, following the combination of large units, amalgamation resulted in double representation here and there. Thus the Metropolitan Bank, absorbed in 1914, and the London Joint Stock Bank, with which union took place in 1918, possessed branches in a number of places where the Midland was already represented. Out of the 80 separate provincial places where the Metropolitan possessed "full" branches, 37 might be described as overlapping in this sense, while the number from the London Joint Stock was 57 out of 106. The actual number of branches was considerably higher, since in large towns each bank frequently possessed more than one office. Yet it must not be supposed that this

overlapping necessarily represented in whole a true excess in the provision of banking offices. Inadequacy of accommodation often prevented consolidation of branches; distance was an important consideration in some of the larger towns; specialization on particular branches of industry sometimes necessitated the retention of nearby separate offices; and goodwill was often found to exist even in a situation. Hence the relatively small numbers entered in the column of closures, when compared with the rapid rate of actual new openings.

The two contributories to the present-day representation of the bank were, then, mainly complementary, and in tracing the origin of branches now open approximately two-fifths are found to be the direct outcome of amalgamation, and three-fifths of branch extension. Owing to the difference in size and nature of business of the various branches, this apportionment provides but a very imperfect measure of the relative importance of the two processes in building the bank. Even in a statistical sense it understates the importance of amalgamation, for by amalgamation branches were acquired with long-established connections, of a volume and stability which newly-opened branches could not hope to secure for many years. Further, amalgamation brought with it a body of men trained in the types of business characteristic of the banks absorbed, and avoided the problem of personnel so often encountered in early efforts at branch extension. In a broader sense, the weight of relative contributions lies even more emphatically with amalgamation, for the fact is that the Midland, if it had never become active in a policy of absorption, would unquestionably have itself been absorbed, becoming, like so many of its fellows, a part of a far larger entity.

The growth of the bank, however, during the second half-century of its life was the fruit of yet another movement—the continuous spread of the banking habit through a wider and wider circle of the population. The joint stock banks themselves had been largely responsible for this movement; keen competition had driven them to seek new fields, and some of the earlier pioneers of joint stock banking had acted upon a deep conviction of the economic and social desirability of widespread utilization of banking facilities. The joint stock banks at an early stage began to explore the possibilities of spreading information, through press advertisements and by such methods as the printing and

distribution of annual reports, as to the advantages to be derived from "keeping a banker". The London joint stock banks, in particular, faced as they were with even keener competition than was encountered in the provinces, showed striking enterprise in this regard. Again, earlier chapters contain examples of efforts to attract relatively small deposits on savings accounts from the less wealthy members of the population. This movement became more pronounced towards the end of the century, and far more intensive as the twentieth century reached and passed its majority.

Meanwhile, the banking system had come to be used on a much broader scale. The banks, in their earliest years the rather aloof associates of the relatively wealthy, the aristocrat, the landowner and the few large business undertakings, became in the second quarter of the nineteenth century the willing allies of the industrialist, the farmer and trader; in the latest stage their sphere broadened once again, establishing them as the servants of vast numbers of other people, particularly the salaried members of the population, offering to all of them an equal claim upon banking services. More especially, the cheque, notwithstanding the taxation levied upon it, became the accepted means of payment for all but relatively small amounts, affording a degree of safety and convenience which could never have been attained except on a foundation of general direct contact with the banks. Today it seems likely, though the proportions are impossible to estimate accurately, that four-fifths or perhaps even more of the total turnover of business of every kind in this country is transacted by operating on bank accounts, leaving only a small proportion to be settled by cash. In more particular terms, the Midland Bank deals with roughly 200 millions of cheques and similar documents in the course of a year, and the annual turnover on customers' current accounts alone is £10,000 millions; the current accounts in this single bank, that is, the accounts which are actively operated on by cheque, number more than 800,000; and the number of borrowers from it, on loan or overdraft, approaches 200,000. These figures indicate the degree to which the maintenance of a banking account has become a national characteristic. The process moved forward hand in hand with the development of banking strength, technique and adaptability; but, as it is true to say that the growth of banking facilities

promoted the extension of the banking habit, almost equally true is it that the spread of the banking habit contributed to the strength and efficiency of the banking system.

From time to time in this history mention has been made of some of the ways in which consolidation of the banking structure affected methods of banking. Most obvious among them, amalgamations contributed very largely, in accordance with the intentions implicit in the Bank Charter Act, to a rapid decline in country note issues, ending in their ultimate extinction. The direct and indirect absorptions of the Midland alone entailed the disappearance of roughly £900,000 of country notes.<sup>(11)</sup> The movement led also to the practical supersession of the bank post bill.<sup>(12)</sup> The figures of the Midland Bank illustrate the lessening importance of this instrument, for in 1847 the item "composition bills" in the balance sheet bore a figure of £8,836, or three per cent of the total liabilities; while in 1873—the last date for which it is separately shown—the figure stood at £23,158, or only 1.4 per cent of the liabilities, and before the end of the century no trace of such a liability could be found. As soon as a bank secured representation by its own branches instead of by agents—still more when large banks centred in London had branches in all the leading towns—the post bill became an unnecessary and relatively inconvenient means of remittance. Its place was taken either by cheques or by simple payments in at one branch to the credit of a specified account at another.

But in a very real sense the coming of the cheque changed the technique of credit provision, for it almost entirely displaced the bill of exchange.<sup>(13)</sup> The bill of exchange was and still is much more than a means of payment; it provided, through facilities for discounting at the bank before the due date, a means of securing credit for carrying through the transaction out of which it arose. In course of time, however, this instrument of credit and remittance came to be ousted by the more convenient system provided by the cheque in combination with overdraft facilities. The overdraft

<sup>(11)</sup> The total of country issues authorized in 1844 was about £8½ millions, and the relatively small proportion of this total allocated to banks ultimately absorbed into the Midland is largely accounted for by the predominance of joint stock banks among the absorptions. The Midland itself never issued notes.

<sup>(12)</sup> See page 23. It is interesting to observe that the Bank of England, which for long retained the "post bill" as an item in its statements under the heading "seven day and other bills", finally discarded the entry at the end of 1934.

<sup>(13)</sup> Legally the cheque is a particular type of bill of exchange, but in ordinary usage the distinction is clear.

system, as understood in modern practice, was of secondary importance in England until the coming of the joint stock bank, and even then its advantages took some time to be recognized by the business community. Once they had been perceived, however, the change-over was rapid. The borrower found, in the first place, that the overdraft system imposed less of the hard and fast rules regarding repayment than applied to the bill system. Next, coalescence within industry itself reduced the occasions for bill financing; the fewer the units concerned in a particular group of trades, the fewer the bills arising from its activities. Hence a naturally growing reliance on direct and flexible bank credit. Again, the cheque quickly proved so far superior to the bill as a means of transmission of funds that this aspect of the bill's former utility was entirely obliterated. The spread of the banking habit to large groups of persons having no occasion to use bills further contributed to the decline of this instrument.

These considerations, combined with the misuse of bill financing in the middle decades of last century, are sufficient to account for its decline, so that early in the twentieth century it came to be almost entirely dispensed with in domestic trade. The change is evident in banking statistics, for, although in many balance sheets bills and advances were combined in a single item, those distinguishing between them are sufficiently numerous and representative. In 1871, for example, the Midland showed a bill holding four times as large as its advances; in 1910 this greatly enlarged organization had increased both items enormously, but advances were now six times as large as bills discounted. Over the same period the Metropolitan Bank's bill holding was unchanged, but its advances were multiplied by twenty.

In addition to these changes of method, a general broadening is noticeable in the scope of banking service—a broadening made possible by the departmental organization and specialized staff which only a large bank could support. The joint stock banks in London from their very foundation performed a wide variety of services, as is clear from the prospectus reproduced on page 280, but a number of additions have been made in the course of the century. The London chapters have recorded the early success of the London Joint Stock Bank in acquiring a considerable foreign business through the establishment of overseas agency arrange-

ments, and the incursion of joint stock banks at a much later date into foreign exchange business of all kinds. One result was that the balance of predominance in foreign business, which until the early twentieth century rested with the numerous private firms and branches of foreign banks, finally passed over to the joint stock banks. The movement is illustrated by the history of the Midland, which refrained from establishing direct representation abroad, preferring to act through agents indigenous to the respective countries with which business was passing, and built up perhaps the largest overseas connection of any single institution in London. Another broadening of the scope of business was the venture into the field of executorship and trusteeship. Within the past twelve years safe deposit accommodation has been provided under customers' direct control, "home safes" have been made available as part of the provision for savings accounts, and "night safes" have been installed for traders coming into possession of large quantities of currency after banking hours.

Again, during the nineteenth century the banks were used more and more generally as channels for investment through the stock exchanges, buying and selling securities on behalf of customers. This was a service which may have developed out of the banks' operations in buying and selling securities for their own account, and it is at least as old as joint stock banking itself. Many provincial banks appear to have acted from their earliest years on behalf of customers through London stock exchange firms, the commission being shared, just as today, between the broker and the bank. Business of this kind grew to much larger proportions as wider circles of the public became possessed of resources for stock exchange investment, and as the supply of available securities increased in volume and variety. Unlike the continental banks, the English joint stock banks did not seek direct representation on the stock exchanges, adhering throughout to the practice of transacting through established and independent brokers the business entrusted to them by customers. Today a substantial part of the business of the stock exchanges is placed by banks on behalf of customers who for one reason or another would find it difficult themselves to establish and maintain contact with expert operators on the exchanges.

To summarize, the consolidation of the banking system was

responsible for many of the most important improvements in technique, though much of the broadening of the character of banking service was a direct outcome of keen competition between rapidly growing or already large institutions—the result, in the terminology of a generation ago, of the “battle of the giants”. The fruits of amalgamation are to be seen in a small number of great banks, providing through wide diversification of risks a maximum of security to their creditors, and furnishing, on the other hand, a maximum of elastic accommodation to borrowers, and a wide range of expert, readily available service—providing them, moreover, with the high degree of economy ensured by the keen competition of very nearly equal forces. That this result should have been the outcome of a long period of development, which began in the face of bitter opposition from the legislature and established institutions, is perhaps a tribute to the force of that mixture of enterprise and caution which had contributed so much to Britain’s economic leadership in the nineteenth century. But it would be a mistake to suppose that the work of banking consolidation was finished with the mere accomplishment of legal amalgamation—the exchange of shares and the assumption by one bank of the liabilities and assets of another: in a very real sense it had then only just begun.

Sir Edward Holden died in July 1919, scarcely a year after the crowning union of the Midland and London Joint Stock Bank. No opportunity remained for further amalgamation,<sup>(1)</sup> though the process of affiliation, initiated by him in 1917, was to be extended over the northern border to Scotland in 1920 and 1924. Yet a great part of the task of consolidation—the part concerned with internal arrangements—remained to be done. Sir Edward Holden, having held for eleven years the joint offices of chairman of the board and sole managing director, left behind him men who had been closely concerned in the technique of amalgamation and in grappling with the problems of internal organization to which it gave rise. One of these, S. B. Murray, did not long survive his former chief, with whom for many years he had been intimately associated; <sup>(2)</sup> another, J. F. Darling, who had come into his position by way of the York City and County and the London Joint

<sup>(1)</sup> Practically speaking, the “Big Five” had already reached their present shape, and, as related in chapter I, the Government had taken steps which in effect stabilized their then existing alignment.

<sup>(2)</sup> He died in February 1922. He, Mr. Hyde and Mr. Darling, had been appointed joint managing directors in 1919.

Stock Bank, was nearing retirement ;<sup>(1)</sup> and it was upon the youngest of the three, Frederick Hyde,<sup>(2)</sup> that the brunt of the work of internal consolidation fell. Holden, moreover, had in another way foreseen and forestalled the problem of successorship. In April 1917 the Right Hon. Reginald McKenna joined the board, and after two years—a period of concentrated training in the technique of banking policy—was called upon to take over the chairmanship. Possessing the advantages of great experience in administration—for eleven years Mr. McKenna had held office in a succession of Liberal ministries—he was able to provide the balancing element in consolidation to the internal experience of Mr. Hyde. The regime of the two, extending over more than fifteen years, saw the process of fusion completed in its fullest sense.

The internal problems arising from amalgamation fell roughly into two groups, mechanical and personal, and the second group, difficult to define yet obvious enough, was in some respects the more intractable. Mere amalgamation inevitably gave rise to divided loyalties and necessitated their fusion, with care to avoid the complete breaking-down of traditions whose loss could ill be afforded. Time itself was one important factor in the solution of this problem—the retirement of men from absorbed banks and their replacement by others bred in the enlarged Midland meant the gradual disappearance of sectionalism. But the method of training went far in the same direction, for it was felt to be on all grounds unfortunate that a man's entire working life should be spent in a single office or branch. Interchange of staff within the bank thus tended to obliterate distinctions of early associations. More than all, the unification of staff service arrangements—salary scales, pensions, insurance and so on—steadily brought all elements into one family. Thus the personal fusion was swifter than might have seemed possible at one time.

The other group of problems, consisting of those concerned with technique, was highly complex. Time and again amalgamations had given rise to the necessity of removing acute differences of method which involved inefficiency and waste. Often it was found that systems of branch organization and control had been shaped

<sup>(1)</sup> He resigned his position as managing director in 1920, but retained a seat on the board, and was succeeded by E. W. Woolley, who in his turn retired from the position of managing director in 1929, but remained as a member of the board.

<sup>(2)</sup> He entered the Derby Commercial Bank in 1885, five years before its absorption by the Birmingham and Midland, came to London in 1891, played a large part in fusing and reorganizing accounting arrangements, and became sole managing director in 1929.



on different lines, and it was necessary to bring these systems into uniformity in order to secure the highest common factor of efficiency. In especial, the task of converting a former head office into a branch of a larger undertaking was no light one. Accounting problems were not alone, nor perhaps the most difficult. The methods of control of management—in particular of lending power—varied widely as between different banks: some were highly centralized; some gave considerable scope for branch autonomy. Some of the banks absorbed, moreover, had not themselves yet solved the problems arising from their own earlier fusions—the London Joint Stock Bank, for example, had by no means brought the York City and County completely into its organization even by 1918. For a bank which, like the Midland, had been operated throughout, perhaps more than any other, on the principle of centralization of authority, the problem of consolidation in this sense was perhaps more difficult than for others which adopted the principle of retaining active district boards, formed largely from the directors or partners, or their descendants, of absorbed banks. Such were some of the many difficulties encountered in bringing the bank into complete unity of operation. This was the other aspect of the general task of internal consolidation, which could hardly be said to have been completed until a decade after Holden's death.

The results of this second phase of the amalgamation process are seen in the outward and inward unity now fully accomplished. Only in a few places are old names preserved,<sup>(1)</sup> as subsidiary to the new, while the internal organization operates throughout the entire system of branches. The branches differ widely in the size and character of their businesses—a branch in the heart of the City of London will naturally be concerned largely with transactions which to a small provincial or suburban branch are exceptional; a branch in a great industrial centre will be active in directions which are almost unknown to the office in a country village or the residential district of a city; the business at a branch in an important agricultural centre, again, will present special features, distinguishing it from that in other types of town.

<sup>(1)</sup> Thus the doors of one of the Liverpool branches still bear the name "Leyland and Bullins"; one of the Stourbridge branches is still the "Old Bank" branch; the façade of the Kington branch retains the title "Kington and Radnorshire Bank"; and portraits of directors of former joint stock banks still hang on the walls of a number of branches like Kirkgate, Bradford, Cloth Hall Street, Huddersfield, and Leicester. Some names survive, moreover, in the prosaic list of branch telegraphic addresses.

For this reason, as well as the infinite variety of individual customer's needs, methods must be adapted to requirements; yet, subject to that elasticity, they are standardized to a high degree.

All branches, moreover, are dependent upon the head office, both mechanically and personally. To deal first with mechanism, the principal cash reserves are held at head office, though subsidiary reserves are maintained at a number of well-placed provincial branches. Day-to-day changes in cash—the surrender of worn coin and notes in exchange for new—and seasonal and other occasional reinforcements are all made directly or indirectly through the head office. Cheque clearings are effected through the head office, the resultant settlements between the various banks being made through the Bank of England. All the arrangements for maintaining liquidity, through holdings of cash, bills and investments, are concentrated at the centre of the organization. The head office, again, is the principal channel for the utilization of deposits in other ways. Roughly speaking, branches can be divided into "lending" and "borrowing" offices. If the customers' credit balances at a branch exceed the amount it can lend locally, the surplus is placed with the head office, which makes use of it in various ways—largely to provide funds for lending at offices where credit balances are insufficient—and allows the branch a varying rate of interest. In this way funds are collected from some branches and lent through others; the resources of districts with a surplus of liquid funds are directed into profitable employment in the great industrial, agricultural and trading areas whose own supplies of short-term capital are insufficient for their needs. Thus Surrey and Kent and the suburbs of London lend surplus funds to the industrial areas of the midlands and the West Riding, and the head office of the great joint stock bank is the channel through which these resources flow with far greater readiness and efficiency than under the old agency and bill system.

So much for mechanics, where the advantages of centralization are obvious. On the personal side, a danger is manifest in this highly concentrated organization—the danger of inelasticity in meeting local requirements. Particularly is this evident in the matter of accommodation, since all the lending operations of the bank are controlled from the head office. The risk, however, was foreseen at an early stage in the amalgamation movement, and, once the principle of centralized responsibility had been adopted,

steps were taken to neutralize its possible hardening effects. Along with the concentration of special branches of work in corresponding central departments—stock exchange transactions in the “stock office”, foreign exchange in its broadest sense in the “overseas branch”, and so forth—went a geographical allocation of responsibility for branches. Thus all transactions which have to be referred to the head office for approval come before an official dealing exclusively with a particular district. Each general manager has his own area, sub-divided into sections supervised by his assistants, and each of these acquires a specialized knowledge of his district, while most of them have worked at branches within their own districts. Every application for an advance, moreover, carries with it on its journey to the head office the observations of the branch manager, and his opinion as to whether it should be granted or not.<sup>(1)</sup> Thus the advantages, on the one hand of local and personal knowledge, and on the other of detached judgment, are secured without damage to the force of either. The managerial organization is knit together through the daily meeting of the “committee of management”, composed of the managing director and general managers. To this body all applications for large advances, from whatever district arising, are referred in order to secure the benefit of combined judgment and responsibility. These and the broader questions of short-term and long-term policy are there co-operatively dealt with, and referred when necessary to the weekly meeting of the board of directors for ultimate decision. Thus the whole machine is controlled from the centre, with checks and counterbalancing mechanism to ensure adaptability to the requirements, never twice the same in every particular, of different localities, different industries and different customers.

The twin processes of physical growth and inward consolidation are reflected in the changes in the name of the bank; from Birmingham and Midland it became in 1891 London and Midland, indicating its widened field of activity; the insertion of “City” in 1898 expressed the strengthening of its foothold in the financial centre; and the elongation in 1918 to London Joint City and Midland depicted the union of two great banking forces; finally,

<sup>(1)</sup> A full treatment of the method employed for dealing with applications for advances, as well as of other matters of banking technique here touched upon, is contained in the evidence of Mr. Frederick Hyde before the “Macmillan” Committee on Finance and Industry, 1931.

in 1923, with the advance of true consolidation, the constituents of the title were compressed into the single word "Midland", by which in fact the bank had been commonly known throughout its life.

Then again, the capital structure of the bank has been modified in course of years in such a way as to secure a balance between the component parts. In the early days of joint stock banking it was usual to issue shares of high denomination on which only a part of the nominal amount was paid up. Thus the early capital of the Midland consisted of 2,000 shares of £50, on which £25 was called. As years went by the uncalled capital was paid up by allocations out of past profits, and further shares were issued, so that by 1874 the capital of 6,000 £50 shares was fully paid. In 1881 came the change-over to limited liability constitution, and with it the reinstatement of a large amount of uncalled capital. The issued capital now consisted of 24,000 shares of £60 on which £12 10s. was paid up, £12 10s. was callable at any time, and £35 only in the event of liquidation. The next step lay in the recognition that in order to secure wider marketability for bank shares a reduction in the size of the unit was desirable. Accordingly in the early twentieth century a general movement towards splitting of shares set in, and the Midland in 1914 divided each share into five, the capital thereafter being composed of £12 shares with £2 10s. paid up. Meanwhile the number of shares had been growing rapidly, mainly as a consequence of amalgamations, and by 1918 the issued capital comprised 2,869,079 shares. Then came a bolder step. Again looking to the virtue of wide marketability of shares—the stability of return on bank shares had made them increasingly desirable and placed them very near the "gilt-edged" class—it was decided to issue fully-paid shares, in order to meet the need of smaller investors who were deterred from holding old shares by the risk, however remote it might be, of heavy calls thereon. A new class of capital was created, and in the next four years nearly two millions of fully-paid £2 10s. shares were issued, some for cash, but the majority in acquiring for the bank the capital of the two Scottish affiliations. Finally, as a further step in democratization of shareholdings, in 1925 another new class of shares was created, and in ensuing years roughly two-and-a-quarter millions of £1 fully-paid shares were issued for cash.

Thus the capital structure was brought into its present form, the total amount of paid-up capital, approximately £14½ millions, being divided almost equally between partly- and fully-paid shares, while the £1 fully-paid shares are rather more numerous than those of £2 10s. The result, so far as the spread of shareholdings is concerned, is striking. In 1879, just before the change to limited liability status, the paid-up capital of £300,000 was held by 290 shareholders, giving an average holding of over £1,000; by 1934 the paid-up capital of £14½ millions was held by 72,900 shareholders, giving an average of about £200. The size and shaping of the capital have thus been the results of deliberate adaptation to public requirements, as well as of the necessities of growth. If the present paid-up capital be broken down into its components, about £9 millions is due to the acquisition of the capital of banks absorbed or brought into affiliation, £5 millions has been subscribed directly in cash, and £150,000 is the consequence of allocations out of profits in the early years of the bank's life. By far the greater part of the capital has been issued at a premium—a fact which applies equally to issues for cash and issues for acquiring other banks—and the premiums have invariably been allocated to reserves. Here, then, is another aspect of balance, demonstrated in the fact that the shareholders' investment in the bank consists not alone of £14½ millions of paid-up capital, but of £11½ millions of reserve fund as well.

Finally, the achievement of internal balance is expressed in the added stability secured by diversification of risks. It is safe to say that, but for the process of structural consolidation, English banking could never have survived un mutilated the stress of the post-war period. Consider, for example, the consequences that might have followed during that time from the existence of numerous small local banks concerned disproportionately with the activities of single industries—the Bradford bank absorbed in wool; the Oldham bank in cotton; the Sheffield banks in steel; the Lincoln bank in agriculture; the London banks in the financing of international trade and investment. In the modern country-wide bank it is possible deliberately to seek a due spread and balance of risks. Thus in the Midland for some years past all advances outstanding have been regularly classified into groups defined by reference to the principal industries and trades. Examination of

the changes, in aggregate amount and in numbers, and of the transactions directly responsible for these changes provides a guide to policy by indicating directions in which expansion would be desirable if larger applications were received, and those in which more than ordinary care is needed to avoid possible over-expansion. In this way the best advantage is taken of the possibilities of diversification of risks.

Surveying the hundred years this history covers, no one would suggest that they have brought finality in social conditions. Yet in economic development they have witnessed an entire re-shaping of society, and such processes, when compressed into short periods, inevitably bring with them grave disturbance and gratuitous suffering. Similarly, the progress of the banking system, which was a part of that larger economic movement, has been by no means even and unbroken or free from those periodic crises, disruptions and abuses which seem unavoidable in all human affairs. It is not too much to suggest, however, that the banking system as it now works does represent one triumph at least of persistent endeavour over human weaknesses—the rapacity, excessive egoism and failures of judgment which account for so much of the darker side of economic history.

The story told in this book must be regarded as a chapter of institutional evolution—a cumbersome phrase excused by its peculiar aptness. The stage reached at the end of the period cannot and ought not to be regarded as possessing the stamp of finality. No human institution, nor indeed any, physical organization, in fact possesses this quality, and it may be confidently expected that the chapter here written will be followed by others disclosing changes perhaps different in direction, and certainly impossible to foresee, but no less striking in their evidence of adaptability. Happily, the task of the historian does not extend to prophecy, but history teaches that institutions which prove rigid and unyielding in face of the need, externally arising, for adaptation invariably break down or fall into disuse—they survive, if at all, with little more than a decorative function. The lasting worth of the banking system will be tested by its adaptability to the needs of a rapidly changing order of economic society.

## APPENDIX TO CHAPTER XI

## EXTRACTS FROM BALANCE SHEET FIGURES OF MIDLAND BANK

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(£000 omitted).

	Capital paid up	Reserve fund	Deposits	Advances	Bills
1910 ...	3,989	3,590	73,415	41,088	6,686
1920 ...	10,860	10,860	371,842	189,720	57,672
1930 ...	14,248	14,248	399,606	203,583	83,923

## CHAPTER XII

### THE NORTHERN IRISH AFFILIATION

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In 1917 the Midland purchased the entire share capital of the Belfast Banking Company, thus beginning upon the affiliations which have spread its influence beyond the boundaries of England and Wales to other parts of the United Kingdom. The Belfast Banking Company was established in 1827, and originated in a union between two long-established private banks of the city.

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FOR centuries of troubled history non-economic forces have operated to divide Ireland into two parts. Such elements of common interest and common economic structure as have been present through the natural process of development have never been strong enough to withstand these forces, and the lasting division eventually took statutory form in the partition of 1921. This story is concerned more especially with Northern Ireland, the portion of the country which, with only one-fifth of its area, provides a home for nearly one-half of its population. Within this area, with Belfast as its capital, are concentrated important industries as well as a large agricultural interest, and, although the economic ties between England and the whole of Ireland have for a very long time been close, they have tended on the whole to find fuller expression in the north than the south. The intimacy of economic co-operation has been particularly marked with Belfast, which occupies the position, peculiar in Ireland, of being predominantly an industrial city. The history of modern Belfast is, indeed, similar to that of many of our own industrial towns. A rapid rise in population increased the number of inhabitants from nearly 40,000 in 1821 to approximately ten times as many at the turn of the century, a rate of progress in marked contrast with that of Ireland as a whole or even of Northern Ireland, for during the second half of the century the population of the country, and of its northern division, declined swiftly. Thus, whereas in 1821 Belfast possessed about one-half per cent of the total population of Ireland, and only two per cent of that of Northern Ireland, by 1901 these proportions had risen to nearly eight per cent and thirty per cent respectively. It is



therefore broadly true to say that industrial advance in Ireland has been largely confined to Belfast and the surrounding area, with the possible addition of Londonderry. The rest of the country depends for its livelihood mainly upon agriculture, and even in Northern Ireland rather more than one-quarter of the total working population is still employed on the land. Mixed farming predominates, but dairy farming and the store cattle trade are of special importance.

For the major part of the past hundred years the manufacture of linen goods has been the distinctive industry of Northern Ireland. The trade, which had been followed as a handicraft manufacture all over Ireland from early times, gained commercial importance under the stimulus of Government assistance during the eighteenth century, and in course of time became concentrated in the neighbourhood of a Huguenot settlement, established near Belfast as part of the Government's plan. In the first half of the nineteenth century the textile interests of the north of Ireland were reinforced by a small cotton industry, but that trade was lost to the more favoured county of Lancashire, and linen was left in undisputed possession of the energies of the people. In 1828 the application to the industry, after a series of abortive efforts, of wet-spinning by machinery made possible a considerable expansion on a new basis of factory organization. Already the annual export of linen goods from Ireland had exceeded fifty million yards, resting in part upon increasing imports of yarns, mainly from England, for Ireland was not at this stage the principal centre of the flax industry in the British Isles. In 1835 the numbers of persons employed in flax factories were for England over 16,000, for Scotland over 13,000 and for Ireland less than 4,000. Nevertheless, Northern Ireland had laid the foundations of an industry that at a later stage surpassed those of other parts of the United Kingdom.

It was, then, during the eighteenth and early nineteenth centuries that the first steps in Belfast's industrial greatness were taken. Naturally, they were accompanied by halting efforts to establish an efficient machinery of credit and remittance. Several short-lived attempts had been made to form banks in the town in the second half of the eighteenth century, and at least five distinct partnerships are known to have experienced brief careers. Significantly, these early private bankers of Ireland were, with

one exception, "all of English, Scotch or French descent—Cromwellians, Quakers, or Huguenots".<sup>(1)</sup> Not infrequently Belfast was altogether without a bank for many years at a time, a condition due partly to the poverty of the country and partly to special banking disabilities, and to some extent arising out of circumstances peculiar to the town. Onerous restrictions were laid upon private bankers in Ireland by the Bankers Act of 1759, a measure which had no English counterpart. Moreover, it was not until 1782 that the Act establishing the Bank of Ireland was passed. In this legislation English precedent was followed, for the charter closely resembled that of the Bank of England. A monopoly of joint stock banking was granted by prohibiting the issue of notes by banking partnerships of more than six persons. The Bank of Ireland, moreover, followed the practice of the English bank in that it refrained for many years from opening branches. Thus in Ireland as in England numerous small and feeble banks were formed by shopkeepers and traders, conducting a dangerously mixed business and embarking upon irresponsible note issues. Whereas in 1797 there were only six such partnerships outside Dublin, by 1804 the number had grown to fifty. Unhappily, this was not the full extent of the evil developments in Irish monetary affairs.

The currency of Ireland had for long been in a state of confusion. At the beginning of the nineteenth century the circulating medium was made up of Bank of Ireland notes, private bankers' notes, bills of exchange passing from hand to hand as notes, bank token coins for amounts ranging between five and thirty pence, and a large quantity of tradesmen's notes for broken amounts, usually less than one pound, issued in the form of i.o.u.'s. The notes of the private bankers and traders circulated only in their own immediate neighbourhoods, and even the paper of the Bank of Ireland was seldom found outside Dublin. With the exception of one district, gold had been driven out of use by the various paper substitutes; in Belfast alone were guineas in circulation, and that town maintained its gold currency for another ten years. The monetary situation in Ireland was further complicated by the fact that, from the proclamation of 1737, exchange with England had been accounted to be at par when £108 6s. 8d. Irish were exchanged for £100 English. For this reason notes were frequently

<sup>(1)</sup> C. M. Tenison: *Old Provincial Private Bankers*, *Journal of the Institute of Bankers in Ireland*, vols. 11 and 12, 1909 and 1910.

printed, as in the example below, with the amount expressed in the two currencies.

	Belfast Bank	
No. 472		No. 472
	Promise to pay J. Nash or Bearer on demand the sum of one pound two shillings and ninepence sterg. at the House of John Lindsey Esq. in Dublin from Ten until Two o'Clock. Value recd.	
		Belfast, 14 Mar. 1809
One Guinea	For David Gordon, Narcissus Batt, John Holmes Houston and Hugh Crawford	D. Gordon

Entd B. Coleman

The note is for one guinea, the English gold coin equivalent to 21 English shillings, an amount also expressed as £1 2s. 9d. "sterling", that is Belfast currency, the relationship expressing the par of exchange of 108½ Irish to 100 English. When the suspension of cash payments in England was extended to the Bank of Ireland, in 1797, a rise in the rate of discount revealed the extent to which excess issues were depreciating the Irish currency in terms of the English pound, the rate reaching, seven years later, £118 Dublin to £100 London. Belfast, however, with its currency of gold coin, occupied a special position, for its exchange was generally at a premium over the English parity. This striking difference of local monetary conditions was expressed also in a rate of exchange between Dublin and Belfast, at times as high as eleven per cent against Dublin. The difficulties of the position led to the appointment in 1804 of a Parliamentary Commission, whose conclusions to some extent anticipated those contained in the famous English "Bullion Report" issued six years later. A reduction of Bank of Ireland note issues followed, and the further depreciation of English currency aided a return to the old parity after 1810. It was not, however, until the final reorganization of the relationship between the Irish and English currencies in 1826 that differences of exchange finally disappeared.

It is evident, then, that by the beginning of the nineteenth century Belfast, in banking and currency as in the general economics of Ireland, occupied a special position. For some

obscure reason the town was passed by when the growth of trader bankers spread throughout Ireland, England and Wales. Hitherto the private banks in Belfast had been few in number, and none had lasted for more than a few years, whereas Youghal, a small market town in the south-west, is reported to have enjoyed at one time the services of no less than seventy issuers of paper money. It was by virtue of this divergent experience that Belfast retained a currency of guineas.

However exemplary this record may be, it is clear that Belfast at the beginning of the century was in urgent need of banking facilities, a condition revealed by rejected petitions addressed to the Bank of Ireland from Belfast requesting a branch to be opened there. Yet it was not until 1808 that a bank was established with some prospect of survival. In that year the private bank of Gordon and Co. (later known as Batt and Co.) began business as the Belfast Bank. The members of this partnership were David Gordon, Narcissus Batt, Hugh Crawford and John Holmes Houston, a nephew of John Holmes, of the short-lived "Four Johns" bank.<sup>(1)</sup> The new undertaking quickly gained the confidence of the town and neighbourhood, and issued notes freely. Three years after the formation of the partnership its circulation amounted to £249,000; in 1819 it was as high as £412,000; and by 1825 it still stood at £351,000. Even after full allowance for the undeveloped state of banking in the district these figures are remarkable, and are to be accounted for in part by the fact that guineas were driven from circulation, many being purchased at high premiums for shipment to England in pursuit of speculative profits. The new bank attracted business by reducing discount rates on bills of exchange from the existing high level of nine per cent to six. Further enterprise was shown by the employment of agents in seven nearby towns.<sup>(11)</sup>

A year after the formation of Gordon and Co. a second firm was established. William Tennent, Robert Caldwell, Robert Bradshaw, John Cunningham and John Thomson entered into partnership as the Commercial Bank. Two of the partners, Bradshaw and Thomson, had been members of an earlier bank, Gilbert MacIlwaine and Co.<sup>(111)</sup> John Cunningham was a prominent linen merchant, and all the partners were wealthy men of high reputation. During

<sup>(1)</sup> Founded 1787, dissolved 1797.

<sup>(11)</sup> J. W. Gilbert: *History of Banking in Ireland* (1836).

<sup>(111)</sup> Founded 1793, relinquished business about 1805.

the same year a third partnership, H. Montgomery and Co., was established, and these three firms formed the basis of later banking development in the town.

Scarcely had the three partnerships been established when the grave difficulties experienced in English banking descended with disastrous force upon Ireland. Of the fifty banks in existence outside Dublin in 1804, only nineteen survived the strain of the next eight years, while a further series of heavy failures in 1820 left only six country banks in existence. Among these were the three established in Belfast, which thus escaped the worst consequences of the crisis. The confidence in which they were held is shown by the following manifesto,<sup>(1)</sup> published in June 1820 in support of the local banks, which indicates incidentally that they were by no means immune from the difficulties of the times :—

#### BANKS OF BELFAST

We, the undersigned Landed Proprietors, Principal Inhabitants, Merchants, and Traders, in the Town of Belfast and its vicinity (being perfectly convinced of the stability of the Three Banks in this town, as well from the very extensive properties possessed by the individual partners, as from the prudence evinced in the management of their affairs), hereby voluntarily pledge ourselves to accept of their notes in all our transactions of whatever kind.

And in a time of general alarm like the present, in consequence of the failure of so many of the Southern Banks, followed by one in Dublin, we are satisfied that any unfounded want of confidence in our respectable banks would materially injure the prosperity of the province of Ulster.

We therefore beg leave to recommend the public to continue that unlimited confidence in them which they so well merit and to receive their notes as heretofore.

Belfast, 15th June, 1820.

[then follow 332 signatures]

Clearly, the time was ripe for following the example of Scotland in the establishment of joint stock banks. This, however, could only be done, as in England, if modification of the charter of the privileged bank could be achieved. The fact that the Bank of

<sup>(1)</sup> *Belfast News-Letter*, June 16, 1820.

Ireland had steadily refused the petitions of provincial towns to open branches, combined with allegations of religious and political discrimination in granting banking facilities, had created active discontent, which came to a head after the collapse of 1820. The Bank of Ireland was driven to relinquish in part its monopoly of joint stock banking; by the law of 1821 firms with more than six partners might be established outside a radius of fifty Irish miles (approximately sixty-five English miles) from Dublin, and Belfast was well outside this range. Unhappily, the enactment embodying this concession was worded in such a way as to render persons resident in England ineligible as partners in Irish joint stock banks. So important were English capitalists in Irish commerce that it was considered impossible to establish a well-founded institution without their help,<sup>(1)</sup> and no advantage was taken of the Act until amending legislation in 1824 clearly stated that persons resident in any part of the United Kingdom were admissible as partners.

In this way stress of circumstances forced Irish banking legislation in advance of that of England, and Belfast rapidly took advantage of the new law. The Northern Banking Company was formed in 1824 to take over Montgomery and Co., and three years later a notable fusion of forces was achieved, when the Belfast Banking Company was established by the union of two private firms—Batt and Co., formerly Gordon and Co., and Tennent and Co. The deed of partnership was dated July 1827, and provided for a nominal capital of £500,000 in 5,000 shares of £100 each, of which, during the first two years, £25 was called, making the paid-up capital £125,000. The bank opened for business in the offices of the Commercial Bank in Donegall Street, and four of the partners in the combining firms became the first managing directors.<sup>(11)</sup>

The beginning of joint stock banking represented a notable step forward in the financial arrangements of the time, and shortly afterwards the currency was reorganized. In 1826 the old par of exchange was abolished, and thereafter all business was

<sup>(1)</sup> The Provincial Bank of Ireland, founded in 1824, was at first directed from London, with Thomas Joplin as secretary.

<sup>(11)</sup> The directors were: Thomas and Thomas G. Batt, James Luke and John Thomson. The "board of superintendence" (see page 362) consisted of Narcissus Batt, a founder of Gordon and Co., William Tennent, merchant and founder of Tennent and Co., George Langtry, Hugh McCalmont, Edward Curteis, John McCracken and Robert Calwell.

conducted in terms of the English pound. The change involved alteration of bookkeeping arrangements, and in consequence it was necessary in those days of elementary accounting systems to close the doors of the Irish banks for three days early in 1826. Ireland was now possessed of currency and legislative equipment making possible the growth of a sound and efficient banking system.

The first seven years of the life of the Belfast Banking Company were uneventful. A branch was opened in 1828 at Coleraine, but further extension did not occur until 1834, when the bank established itself in Londonderry, Ballymena and Ballymoney. Regular dividends of five per cent were paid, and twice a bonus of £2 per share was distributed. In 1835, however, a rapid expansion was undertaken, no less than ten branches being opened, and the annual report for that year expresses satisfaction with the increase in circulation and deposits attributed to this policy. The process was part of a larger movement, in which joint stock banking engaged in the keenest competition to secure the business of a fast developing region. Belfast became the seat of a new joint stock bank, the Ulster Bank, but the three banks whose business centred in Belfast later came to working agreements as to branch extension, thus avoiding excessive competition. In the eighty years succeeding 1835 the Belfast Banking Company opened no more than thirty-five new branches and ten agencies.

The even career of the bank met with a setback in 1836, when the financial crisis throughout the British Isles was intensified in Ireland by the failure of the Agricultural and Commercial Bank, which operated a branch system spread throughout Ireland. The accompanying distress provoked runs upon Irish banks generally, and necessitated a movement of £2 millions in gold from the Bank of England to meet the demands of the Irish public. It is not surprising that for this year the Belfast Bank suffered a loss of about £2,000, although the dividend was maintained at seven per cent by calling upon reserves. This is the only year in the whole of the bank's history for which a net loss is recorded, and a profit of over £11,000 for 1837 showed that the reversal was only temporary, and that the foundations of the bank had been solidly laid.

A steady growth of business, indicated in a rise in deposits to a total of £700,000, led to an interesting change in habitat in 1846.

The bank, then possessed of eighteen branches, had found the original head office too small for its requirements, and after long negotiations the company acquired the Exchange Buildings in 1844, entering into occupation two years later, when the necessary alterations had been made. These historic premises<sup>(1)</sup> had been erected in 1769, and a second storey added seven years later to the design of Sir Robert Taylor, who was responsible for some of the work, now entirely demolished, on the Bank of England. They had served first as an exchange, later as a place for the election of the chief magistrate, and occasionally as a court for trials. The upper part of the building came to be known as the Assembly Room, and constituted for many years the principal public hall of the town. In altering the premises for use as a bank some of the original architectural features were preserved, and the Assembly Room, in particular, still retains its essential form, notwithstanding its adaptation to business purposes.

At about this time a profound alteration occurred in the legal foundation of banking in Ireland. Continued complaints of inadequacy of banking services, which found expression more especially in opposition to the Bank of Ireland's already modified monopoly, became more and more insistent, until the Government was forced to take action, following its attempts to regularize an unhappy, but in important respects dissimilar, situation in England. The Irish Bank Act of 1845—part of the great corpus of banking legislation undertaken by Sir Robert Peel—was much closer in its provisions to the Scottish Act<sup>(2)</sup> than to the English Bank Charter Act of 1844. In the first place, it entirely deprived the Bank of Ireland of its exclusive note issue privilege, even within the geographical limit set in the Act of 1821. Secondly, as in other parts of the kingdom, no new banks of issue were to be established, and in Ireland, as in Scotland, but in contradistinction to the rules for England, the authorized issue of notes for each bank then operating simply placed a maximum on the fiduciary issue, without limiting the total outstanding. Notes issued in excess of the fiduciary limit were to be fully covered by holdings of gold, or of silver up to one-fifth of the excess. In two other respects the Irish legislation agreed with the Scottish: provision was made under which, if two banks united, the combined

<sup>(1)</sup> Interesting records concerning the premises are contained in S. Shannon Millin's "Sidelights on Belfast History" (1932).

<sup>(2)</sup> See chapter XIII.



institution was to be allowed an authorized fiduciary issue equal to the aggregate enjoyed by the separate banks ; while notes were permitted from a minimum denomination of £1. The fiduciary issues accorded under the Act were fixed at the average circulation of the respective banks during 1844, and the Bank of Ireland, which had become, and remained thereafter, in almost all respects a commercial rather than a central bank, received by far the largest quota. The fiduciary issues of the three banks with their head offices in Belfast showed relatively little difference as between themselves, the figure for the Belfast Banking Company being fixed at £281,611.

Scarcely had the Irish Bank Act been passed when the country encountered one of the greatest disasters in her history. The years 1845-47 were visited by failure of the potato crop, the staple food of the people. A general famine ensued which reduced thousands of peasants to starvation and forced hundreds of thousands to emigrate from their stricken country. Industry was brought to a standstill. A population of over eight millions in 1841 was reduced to six-and-a-half millions ten years later, a terrible loss from which the country never fully recovered, for the decline has steadily continued until the present day. In contrast with the rest of Ireland, Belfast and district quickly regained a condition of relative prosperity, with a growing population. Power-looms were introduced in linen manufacture from 1850 onwards, and the textile gradually left England and Scotland to become concentrated in Northern Ireland. Meanwhile other large industries were developed. In 1853 a ship-building yard was opened in Belfast for the construction of iron vessels, and fifteen years later another firm was established in the same industry. These two firms initiated many of the most important developments in iron and steel shipbuilding and marine engineering, making Belfast one of the largest shipbuilding centres of the world. The latter half of the century saw the rise of a number of other undertakings engaged, for example, in the manufacture of ropes, tobacco products, spirits and mineral waters. It was also a time of railway building, and Ireland soon reaped the benefit of rapid transport in the opening of the markets of England to her agricultural produce.

On the basis of this enlarged and varied trade the port activities of Belfast rapidly increased. At the beginning of the century

the town was approachable from the sea only by a tortuous waterway unsuitable for navigation except by small vessels, and until the 'forties Dublin was far ahead in volume of traffic. An Act of 1847 set up the Belfast Harbour Commissioners, and striking improvements were immediately undertaken. Whereas in 1837 the net tonnage cleared from Belfast was less than 300,000, by the end of the century it was eight times as large, and had outstripped the figures for Dublin. Throughout this period the Belfast Bank made uninterrupted headway. Intimately concerned in the economic and public development of the city and district, its figures indicate the rapidity of the upward trend. Dividends, which for some years had been paid at seven per cent, were raised to eight for the years from 1846-54, thence to twelve, and finally, in 1865, to twenty per cent. In addition, substantial bonuses were paid almost every year. The note issue had risen by 1866 to nearly £400,000, and deposits, at £2½ millions, were nearly four times as large as at the time of the Bank Act. Such progress in twenty years was a reflection of the economic trend of the times, culminating in the boom in the linen industry resulting from the American civil war, which in the early 'sixties brought disaster to Lancashire.<sup>(1)</sup> At this stage the bank was feeling the need of additional resources, and in 1866 the capital was doubled by an issue of new shares of £100 each, with £25 paid, at a premium of £10.<sup>(2)</sup>

Now, however, the economic trend took a sharp turn. The end of the American civil war brought a resumption of cotton supplies and a swift decline in the demand for linen goods, so that depression descended upon the Irish linen industry and lasted, with some intermissions, for a generation. On the other hand, repeated attempts to solve the acute problems of Irish land tenancy gradually led, as the century drew to its close, to improved methods of agriculture, resulting in turn in a general raising of the standard of living for a large part of the population. The importance of agriculture in the economy even of the relatively industrialized northern section of Ireland was upheld and to some extent increased, and it assisted, along with the sustained progress of shipbuilding and other industries, in offsetting the effects of depression in the linen trade. Hence the figures of the Belfast Bank, while they

<sup>(1)</sup> See chapter V.

<sup>(2)</sup> A peculiarity of these shares was that they were entitled to dividend at two-fifths of the rate paid on the old shares.

showed a much slower rate of progress than had previously been recorded in times when the country was hungry for increased banking facilities, gave no sign of any lasting setback. Deposits fluctuated between two and two-and-a-quarter millions until the early 'nineties; the note circulation increased to half-a-million, while advances and bills together attained a total of nearly three millions by 1894, being at that time well in excess of the deposit liabilities. This relationship had already indicated the necessity for a second addition to the capital, undertaken in 1883. The dividend on the old shares was maintained at twenty per cent, and on the "new" at eight per cent, throughout the period; indeed, these rates became regular until the two types of shares were consolidated in 1924.

The Belfast Bank, like its contemporaries in England, had by the end of the century undertaken an important change in its legal status. Abandoning its old co-partnership form, it was incorporated as an unlimited company in 1865. Again, although Ireland, despite its close business associations with Great Britain, does not seem to have been greatly affected by the City of Glasgow Bank failure in 1878, advantage was shortly taken of the new provisions for limiting the liability of bank shareholders. Accordingly the Belfast Bank, in common with other Northern Irish banks, was registered as a limited company in 1883. By these steps the bank assumed the statutory form in which it exists today.

The years from the early 'nineties made up a period of renewed advance in prosperity. The progress achieved is reflected in the steady growth of deposits and note issue of the Belfast Bank, which by 1914 had reached £6 millions and £656,000 respectively. The capital had been further increased, and, in conformity with the practice of many banks, had been sub-divided to secure a lower denomination and resultant readier marketability. Advances and bills together had by this time attained a relationship with deposit resources which indicated a marked easing of the pressure on the capacity of the bank to provide credit facilities, for the two items aggregated £4½ millions. Their sizes relatively to each other, however, had undergone a pronounced alteration, indicating a basic change in banking practice which for years had been going on throughout England as well as Ireland. In 1894 the bill holding—and at that time, as indeed up to 1914, Treasury bills were practically non-existent—was roughly

two-thirds as large as the advances; in 1914 it was less than one-quarter as large.

To shift the centre of the story, it will be recalled that the outbreak of war brought with it a temporary cessation of the process of consolidation in English banking. It brought, moreover, preoccupations which might have been thought sufficient to check extension of any kind. In fact, the process, while on the surface arrested, was proceeding vigorously, at least in the minds of bankers who perceived the near approach of the limits to further expansion within the boundaries of England and Wales. Sir Edward Holden, in particular, was turning his eyes to other parts of the kingdom, and in 1916 premises were secured in Dublin and Belfast "with the view of commencing business in Ireland immediately after the War". Any plans he may have entertained for representation in the south of Ireland were never brought to fruition, and the premises were later sold. In Belfast, too, although the project reached the stage of opening a short-lived branch of the Midland Bank early in 1918, a much more important step ousted this plan of direct representation, for in June 1917 it was announced that provisional arrangements had been made by which the Midland should acquire the entire share capital, then standing at £500,000 paid up, of the Belfast Banking Company. The offer,<sup>(1)</sup> which gave the Belfast Bank shares an enhanced capital value of 12½ per cent and promised a much higher dividend to the former holder, was readily accepted. The war had led to special changes in the figures of the Belfast, as of all other British banks, so that by 1917 the deposits had risen to £7¾ millions, the note circulation to nearly £1¾ millions,<sup>(11)</sup> and advances and bills to £6¼ millions.

This consolidation of interests was one of the outstanding achievements of Sir Edward Holden, for not only did it mark an advance in the technique of integration, but it followed the natural development of economic tendencies. Ever since the Act of Union, in 1800, commercial relations between the two countries had increased, and this was particularly true of the northern, industrial section of Ireland. It was natural, then, that the two countries should be drawn closer together through banking

<sup>(1)</sup> The terms were: three Midland shares (of £12, with £2 10s. paid up) for two "old" Belfast Bank shares (of £12 10s. with £2 10s. paid up) or five "new" Belfast Bank shares (of £12 10s. with £2 10s. paid up). The two classes of shares were consolidated in 1924.

<sup>(11)</sup> The rise was largely due to the recall of gold coin from circulation.

affiliation. The direct representation of the Midland in Belfast was retained only until 1920, when the premises were transferred to the Belfast Bank for use under its own name more especially in the conduct of a growing overseas business.

Sir Edward Holden, in addressing his own shareholders after the conclusion of the Belfast affiliation,<sup>(1)</sup> stated that the step had been designed to further the interests of large customers of the bank transacting business in or with Belfast. He did not explain, however, why it was that the hitherto invariable process of amalgamation had here been set aside in favour of maintaining separate identity in structure and management. Several factors had contributed to the invention of this new form of banking consolidation. For one thing, no assurance could at that time be felt that the right of note issue could be retained after amalgamation on the model hitherto followed. Another factor lay in the curious capital arrangements of the Belfast Bank—the co-existence of “old” and “new” shares—which might have made amalgamation a particularly costly process. And thirdly, considerations of sentiment played their part, for it was evident that much of the Belfast Bank’s value lay in its “goodwill”, implicit in its name and built up through a long period of intimate association with every form of economic activity in its area of operation. Moreover, the Belfast Bank had almost throughout its career enjoyed close business relationships with the City authorities, the Belfast Harbour Commissioners and many other leading public bodies in Northern Ireland.<sup>(2)</sup> Whatever the relative weights of reasons, however, it required but little experience of the working of the affiliation to show how advantageous was the newly-conceived relationship. The precedent established in respect of the Belfast Bank was followed immediately by an arrangement concerning the Ulster Bank,<sup>(3)</sup> and within a few years by affiliations with Scottish banks.

The new form of association proved in practice to possess advantages of elasticity which could never have been achieved by complete amalgamation. Thus it has been demonstrated for nearly twenty years that association of interests is fully compatible with the absence of any alteration of internal arrangements. The

<sup>(1)</sup> Annual general meeting, January 1918.

<sup>(2)</sup> Since the Treaty of 1921 it has acted as the Exchequer bank of the Northern Ireland Government.

<sup>(3)</sup> Affiliated with the Westminster Bank.

Belfast Bank still operates as a separate entity, preserving the somewhat unusual method of direction and control set out in the deed of partnership more than a century ago. From its formation the bank has been managed by a board of directors, four in number, who devote their whole time to the bank and have entire control of its internal management. As these managing directors are elected by the shareholders for life, remarkably few changes have occurred in the central executive. Over the entire century only nineteen men have served in this capacity, a fact which, along with a record of unbroken stability and progress, speaks highly for the benefits of continuity of management and policy. Corresponding more nearly to the boards of directors of English banks is the "board of superintendence", consisting of seven members, and the list of names of those who have served upon this body in the course of the bank's history includes many of distinction in the business and public life of Northern Ireland.

In matters of internal management, indeed, some such elastic arrangement as is implicit in the method of affiliation was essential, since Irish banking still possesses special features which distinguish it clearly from English. The most obvious of these arises from the provisions of the Act of 1845 relating to note issues, for Irish banks were required to pay their notes at the towns of issue,<sup>(1)</sup> and the necessity of maintaining cash reserves for this purpose at all branches, coupled with the fact that until 1914 no bank notes were legal tender in Ireland, caused the Irish banks to become much larger holders of specie than their note-issuing English contemporaries. There was no developed system of central reserve banking in the country; the banks came to rely largely upon their own gold holdings, while in times of extreme difficulty the Bank of England was called upon, in Ireland as in Scotland,<sup>(2)</sup> as a final reserve. The laws governing note issues in the Free State and Northern Ireland are now substantially different from those operating when Ireland was a single unit, but the characteristic of separate reserves still holds good of the north, though something approaching a concentration of reserves and note liabilities has taken place in the Free State. Under the Bankers (Northern Ireland) Act 1928 the old system of a fixed fiduciary issue was retained; but excess issues may be supported, in accordance with the modifications of law introduced in 1914,

<sup>(1)</sup> Notes are now payable at the head offices of the banks.

<sup>(2)</sup> Compare page 404.

by Bank of England notes, ranking as the equivalent of gold.<sup>(1)</sup> The three banks with their head offices in Belfast were accorded fiduciary issues aggregating £884,000, of which £350,000 was allotted to the Belfast Bank. Note circulations, then, still play an important part in the banking operations of Northern Ireland.

The period since the affiliation with the Midland has been an eventful one, marked not only by the political and economic upheavals which have tested all British banks alike, but by changes, in addition, peculiar to Ireland. The partition of 1921 was perhaps the most outstanding of such events, and it had important reactions upon the Belfast Bank. Following the affiliation the inter-bank agreement restricting the opening of branches had been cancelled, and an immediate result was an increase in the number of branches of the Belfast Bank. Branch extension had been suspended since the outbreak of war, but in 1918 eleven branches and twelve agencies were opened, and by 1922 the branches numbered 67. The branch system of the bank had spread across the north of Ireland, and had extended south to Dublin and Kingstown at the turn of the century, and the branches opened after the affiliation represented consolidation in existing areas rather than extension into new ones. The institution of a new political and fiscal boundary, under the Treaty of 1921, gave rise to technical difficulties in bank operations, for the Belfast Bank possessed a number of branches in the new Free State area. Further, it was the declared policy of the Midland Bank to confine its own branches to the United Kingdom. Accordingly, the managements of both banks were unanimous in the opinion that the field of operations of the Belfast Bank should be narrowed to conform with the new political alignment. An agreement was therefore effected under which, in 1923, the twenty branches and associated agencies of the Belfast Banking Company situated in the Free State were bought by the Royal Bank of Ireland. While the partition thus led to the sacrifice of a valued share of the business of the Belfast Bank, the decision proved in practice to have conferred undoubted compensating advantages.

Happily, the Belfast Bank, in common with its competitors throughout the country, had succeeded in avoiding the possible injurious consequences of a long period of more or less violent

<sup>(1)</sup> This substitution is authorized by the Currency and Bank Notes Act 1928.

political disturbances. True, in the troubled days of 1916 it was necessary to barricade many of the bank offices, while in 1921 the northern banks were threatened in another way, by means of the boycott. An interesting poster, of which the wording is reprinted below, illustrates this method of attack :—

TO ALL WHOM IT MAY CONCERN

At a large meeting held in the Court-house, Ballybay, on Wednesday Evg., it unanimously decided :—

WHEREAS the impositions of political or religious tests as a condition of industrial employment has been declared illegal, throughout the whole of Ireland, and

WHEREAS such tests have been, and are being imposed in Belfast, that

PENDING the reinstatement of the dismissed workers,

(a) ALL monies lodged with the Belfast, Ulster and Northern Banking Companies must be immediately withdrawn.

(b) ALL trade relations with Belfast must be suspended, until the Official White List (of firms who have not victimised employees for religious or political reasons) is issued, when trade with such firms may be resumed, and that

(c) A Committee be set up to see that above decisions are adhered to.

Evidently the writers of this document, the consequences of which might have been serious in some circumstances, were irresponsible persons with no large following. The solemn injunctions were not widely or consistently observed ; and the boycott in fact never became effective.

The statistical record of the Belfast Bank, provided in the tabular appendix to this chapter, is disturbed by war and post-war monetary developments, while allowance must also be made for the narrowing of the field of operations in 1923. It is clear, however, that the bank has fully maintained its position in the business life of its city and country. Progress, indeed, throughout the century of the bank's career, has been singularly steady and free from the setbacks, so often presaging disaster, which characterized the life of many a local English bank.



APPENDIX TO CHAPTER XII

BELFAST BANKING COMPANY

EXTRACTS FROM BALANCE SHEET FIGURES

(£,000 omitted)

		Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills
1850	...	125	?	?	878	?	?
1860	...	125	?	?	2,177	?	?
1870	...	250	250	?	2,245	?	?
1880	...	400	175	?	2,055	?	?
1890	...	400	300	473	2,336	1,207	1,015
1900	...	400	400	523	3,690	2,531	902
1910	...	500	450	543	4,813	3,811	809
1920	...	500	550	1,662	17,001	12,825	1,627
1930	...	800	600	784	13,728	8,030	242

CHAPTER XIII  
NORTH OF THE TWEED

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The first Scottish affiliation of the Midland was made in 1920, when the entire share capital of the Clydesdale Bank was acquired. The second took place four years later, and by a similar procedure brought the North of Scotland Bank into affiliation. Both banks were of long history, in course of which the Clydesdale had absorbed several small Scottish banks and the North of Scotland had amalgamated with the Aberdeen Town and County Bank.

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THE economic development of Scotland has been directed to a striking extent by geographical conditions. More than three-quarters of the land surface consists of a barren or heather-clad area of rugged mountain ranges and masses, crowded closely together and trailing on the west into fringes of islands. Much of this area is unsuitable alike for crops or pasture, and communication even today encounters formidable barriers. It is only in the central lowlands, the eastern districts and the southern counties that extensive and varied agriculture has been possible, and of these regions the first is by far the most important economically, for a large proportion of the agricultural land of the east is a coastal area, rising to difficult mountain ranges, while the southern uplands form in the main an uninterrupted stretch of sheep-runs. The valleys of the Clyde, the Forth and the Tay have thus always constituted the principal centres of population. In addition, the mineral wealth of the country is concentrated almost entirely in the central lowlands, so that modern industrial development has preserved and emphasized the earlier balance of population. The economic disparities between different sections of Scotland are unusually pronounced. In 1931 the three counties north of Inverness, with an average of about 18 inhabitants per square mile, formed one of the most sparsely populated areas of Europe. The number compares with an average of 163 for the whole of Scotland, and even this figure is low when placed beside the relatively high rates of 1,777 and 1,438 per square mile for the counties of Lanark and Midlothian respectively.

LIST OF DIRECT AND INDIRECT ABSORPTIONS  
BY SCOTTISH AFFILIATED BANKS

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THE CLYDESDALE BANK

Established 1838 ; affiliated with Midland Bank 1920

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Estab- lished	Name of bank	Date of absorption	Date of absorption
1825	Dundee Commercial Bank	1838	became Eastern Bank of Scot- land
1838	Eastern Bank of Scotland	1863	amalgamated with Clydesdale Bank
1838	Southern Bank of Scotland	1842	absorbed by Edinburgh and Leith Bank
1838	Edinburgh and Leith Bank	1844	became Edinburgh and Glas- gow Bank
1840	Glasgow Joint Stock Bank	1844	absorbed by Edinburgh and Leith Bank
1840	Greenock Union Bank ...	1844	amalgamated with Clydesdale Bank
1844	Bank of Glasgow ...	...	1845 taken over by Clydesdale Bank before opening as separate bank
1844	Edinburgh and Glasgow Bank	1858	amalgamated with Clydesdale Bank

NORTH OF SCOTLAND BANK

Established 1836 ; affiliated with Midland Bank 1924

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1825	Aberdeen Town and County Bank	1908	amalgamated with North of Scotland Bank
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The beginnings of Scotland's modern economic development are to be found in the early years of the eighteenth century. Progress at first was slow and uncertain, for at the close of the century the population of Scotland was still less than two millions, while there was no single town possessed of more than 100,000 inhabitants. Yet a beginning had been made upon the all-important improvement of communications. The construction of roads made rapid headway in the second half of the century, while the first canals were opened for traffic in 1790. During the century Scotland had made progress in agricultural methods, under the guidance of farmers from Dorset and Norfolk. Stimulated by the demands of an expanding English market, the agrarian revolution spread from the border counties northwards into the highlands. The demand for wool arising from Yorkshire resulted in an extension of sheep-farming, large sheep farms being established and stocked from the south. By the opening of the nineteenth century these improvements were in full operation.

In industry, too, the first step had been taken in what was to prove a rapid transformation in economic life, in course of which Edinburgh, the home of a variety of small and old-established trades, was to lose its industrial leadership. Already a strong challenge had been thrown down from both north and west. A widespread linen industry, fostered by government patronage, was carrying Dundee in particular to a position of prominence. Thirty years later, with the coming of the factory system, the burgh was to be described as "the capital of the linen trade".<sup>(1)</sup> In the west, Glasgow was in the throes of a phenomenal development of the new textile, cotton. The industry was early to adopt factory organization, and mills sprang up around Glasgow and the Clyde, encouraged by readily available water-power. It was in this period that Glasgow came to surpass Edinburgh in numbers of inhabitants, for in 1801, with a population of about 77,000, it was almost as large as the capital city, while twenty years later it was the larger by a considerable margin. There was another cause for the massing of population around Glasgow. This was the growth of iron production, which was to take pride of place over textile manufactures and swing the predominant economic interests of the country to the west. The real beginning of what was to become the greatest of all Scottish industries was undertaken by

<sup>(1)</sup> Census, 1831.

two Birmingham manufacturers, who set up the Carron ironworks near Falkirk in 1760. Yet, despite the considerable resources of the region in both iron and coal, progress at first was slow, and it was not until the eighteen-thirties, with the invention of Neilson's hot blast process and the coming of the railways, that rapid expansion took place. Most of the works set up in the later period were established in the neighbourhood of Glasgow and along the banks of the Clyde.

These new industries added enormously to the traffic of the port, which had already acquired a considerable trade, more especially with the West Indies, and was rapidly outstripping both the older ports of Leith and Aberdeen. Whereas Leith served the eastern side of the lowlands, with its varied industries, Aberdeen profited rather by isolation. The city used the sea as its highway, and until the coming of the railway was in as close contact with Scandinavia, the Netherlands and the Baltic as with Leith or London. Right down to the early nineteenth century Aberdeen had the largest tonnage on its register of any town in Scotland. A hinterland stretching as far west as Inverness provided freights for the shipping of the port and a market for the small and varied manufactures of the city. The characteristic granite industry had reached the stage of providing a substantial export. Owing to difficulties of transport, fishing was as yet of small importance except for local purposes, but Aberdeen had already attained a leading position in shipbuilding.

The economic development of Scotland was assisted by a progressive and enterprising banking system. In 1695, a year after incorporation of the Bank of England, a similar institution was founded by Act of Parliament for Scotland. Established in Edinburgh, with a capital of £1,200,000 Scots (= £100,000 sterling),<sup>(1)</sup> the new Bank of Scotland confirmed the ancient city in its already existing financial leadership. For many years the actual capital of the bank was only £10,000, the shares being ten per cent paid, and even then it was subscribed as to one-third in London. Further evidence of English influence is given by noting that in the first court of directors one-half were elected

<sup>(1)</sup> Originally of the same weight and fineness as English coinage, the money of Scotland from the fourteenth century onwards suffered repeated debasements until at last it was only a twelfth part in value of English money of the same denomination. The currency was reformed and restored to parity with that of England at the Union of 1707, but for many years afterwards the £ Scots (=  $\frac{1}{12}$  £ English) was used by Scottish traders and bankers to amplify the expression of an amount in sterling.

from among the English proprietors, while English precedent was followed by the grant of a monopoly of banking for twenty-one years. Upon the expiry of this period, however, the privilege was not renewed, and banking was left free to develop without let or hindrance. Differences in practice as well as law soon emerged, for almost immediately the Scottish bank made efforts to establish branches outside Edinburgh, and repeated the process in 1731. On both occasions the experiment proved premature in a country backward in commercial development and impeded in progress by limited and perilous transport facilities. The first years of the bank were full of stress, and its position was rendered the more difficult by the foundation of another bank in Edinburgh, again with legislative support, in 1727. The Royal Bank of Scotland was markedly successful, and introduced an important innovation into the practice of banking. Almost immediately after incorporation a "cash-credit" system<sup>(1)</sup> was begun. The arrangement proved invaluable in a country of meagre capital resources, and enabled the fullest use to be made of the bank's privilege of free note issue.

The first two great banking companies had their origins in political rather than economic causes, but a third chartered banking company, established in 1746 as the British Linen Company, was much more intimately identified with the detailed conduct of trade and commerce, for its foundation proceeded directly from the policy of official encouragement to the linen trade. Almost from the outset this new Edinburgh institution evidently considered its most helpful course was to develop the financial and banking side of the trade. Within four years the company was issuing its own notes, and by 1763 had withdrawn from trade and manufacture to operate solely as a bank, though the charter did not recognize the changed scope of operations until 1849.<sup>(2)</sup> To meet the needs of the scattered linen manufacture, agents were spread throughout Scotland, and the step from agencies to branches was easily made, so that by 1793 twelve widely-spread branch offices were in full operation.

The pioneer work of these early companies, along with the operations of a few private banking firms in Edinburgh, provided

<sup>(1)</sup> A "cash-credit" was an advance granted against a bond entered into by the borrower together with one or more persons as co-obligants, the system thus corresponding roughly with the modern overdraft covered by a guarantee but unsupported by other forms of security.

<sup>(2)</sup> A. W. Kerr: *History of Banking in Scotland*.

the basis upon which was evolved a banking system admirably suited to the needs of the period. True, about the middle of the eighteenth century there were currency troubles, due to irresponsible over-issue of paper currency of small denominations, but these were early overcome, and Scotland was delivered from a form of note weakness which continued to distress both England and Ireland for another half-century. Thus Scotland presented a model to the confused banking arrangements of England, which at that time was far more advanced in industrial organization. Unfettered by monopolistic legislation, and encouraged by the free right of note issue, a joint stock banking system naturally developed.

During the second half of the eighteenth century the reluctance of the Edinburgh banks to establish branches, along with the expansion of the trade of the country, led to the formation of many local private and joint stock banks. The process continued despite a disastrous experience,<sup>(1)</sup> and branch systems,<sup>(2)</sup> operating with widely distributed capital, slowly gained ground over strictly local banks. The position in 1826, when England did not possess a single joint stock bank, and only very few branch offices, gives striking testimony to the advanced stage of banking in Scotland. The Bank of Scotland then operated sixteen branches and the British Linen Bank twenty-seven, though the Royal was still confined to Edinburgh and Glasgow. Besides these, fifteen banks established before 1800 had in total 386 partners and 32 branches; thirteen more, formed between 1800 and 1826, had at the end of the period 2,806 partners and 62 branches.<sup>(3)</sup> Even these, however, with two exceptions, were still local joint stock banks, strictly limited in size and scope. During the decade 1830-40 the change became much more pronounced, and the ten new banks set up between 1826 and 1844 and still in existence at the later date showed a total of over 9,000 "partners" and 180 branches. Scotland had thus quickly developed an advanced banking structure by evolving the principle of the bank with a widespread branch system at a time when England was still floundering in the mire of local banking on a mixed private and joint stock basis.

<sup>(1)</sup> The failure in 1772 of the Ayr Bank, which had 200 co-partners and a note issue of nearly half-a-million sterling.

<sup>(2)</sup> At a very early stage of development of Scottish branch banking the process extended beyond the borders of its native country. See chapter IV.

<sup>(3)</sup> William Graham: *The One Pound Note in the History of Banking in Great Britain.*

It was this healthy development that conferred upon the Scottish one-pound note the highest esteem both in Scotland and the north of England. On this account it was vigorously defended from all attacks.<sup>(1)</sup> In 1826 legislation prohibited in England the issue of notes of less than £5, and it was proposed to extend the restriction to Scotland. The suggestion was met by a storm of furious opposition.<sup>(2)</sup> Led by Sir Walter Scott, under the sinister pseudonym of Malachi Malagrowther, representatives of all professions, occupations and beliefs rushed into press and protest meeting to defend the national prestige with a unity which would have surprised their ancestors, and with a spirit of which the great clan chiefs might well have been proud. Faced by such determined and eloquent forces the first great attack upon the one-pound note was defeated, as were all such, even at much later dates.

It is thus manifest that the rapid transformation of a part of Scotland into a position of equal prosperity with its southern neighbour was facilitated by a tried financial system developing contemporaneously with economic progress. Almost invariably the new banks were founded upon the joint stock principle, and often they had to seek their fortunes side by side with older companies. An illustration of the process may be seen in the banking history of Aberdeen. By the early years of the nineteenth century the city supported three branch banks besides two native institutions, but evidently its prosperous condition still offered scope for new foundations. "Consideration for several years" at length crystallized into a meeting of prominent Aberdonians, late in 1824, to discuss a proposal for establishing a new bank. The group of local merchants and business men at the centre of the movement were certain of success, in the words of the prospectus, "taking into view the highly flourishing state of this and the neighbouring counties—the daily increasing population and prosperity of the City in all its most important interests—with the vast accumulation of unemployed capital". Accordingly subscriptions were invited for a nominal capital of £750,000 in shares of £500 each to open a new bank entitled "The Aberdeen

<sup>(1)</sup> Burns was led by special reasons which have no general significance to describe the one-pound note as "thou cursed leaf".

<sup>(2)</sup> Representatives of the gentry and mercantile interests in the counties of Cumberland and Westmorland presented appeals to the Government of the day urging the importance of small Scottish bank notes in local trade and requesting that the right to issue them should not be taken away. See page 114.



Town and County Bank". The project was well received, particularly among the manufacturing and mercantile members of the community, and applications for shares exceeded the number available. A payment of £75 per share gave the bank a paid-up capital of about £100,000. In the deed of co-partnership,<sup>(1)</sup> which set a period of twenty-one years to the contract, a complex system of control was prescribed under which a governor and thirty-four directors, fourteen of them honorary, were to guide the affairs of the bank. Thus strongly supported, at any rate numerically, the Aberdeen Town and County Bank opened for business in April 1825.

The response of the banking structure to economic development found fuller expression in the central lowlands. The second phase of industrial revolution in Scotland may be said to date from 1830, and the succeeding decade saw marked expansion, especially in the activities of the Clyde area. A decline in the cotton industry had been far more than counterbalanced by the rapid growth in the production of iron, while a new activity was gaining ground through the use of iron as a material for ship-building. Whereas Glasgow in 1821 contained less than five per cent of the total population of Scotland, by 1841 its quota exceeded ten per cent. The pressure for greater banking facilities is thus readily explained, and a whole group of new banks came to life in Scotland, including five established in Glasgow alone between 1830 and 1840. Among them was one appropriately named the Clydesdale Banking Company. Confident in the growing trade of the district, the promoters of the bank, founded in 1838, announced the intention that their undertaking should be "chiefly a local bank . . . having few branches [an intention very early abandoned] . . . but correspondents everywhere". Despite the original restriction of area, the capital of £375,000, divided into £20 shares with £10 paid, was allocated in such a way as to attract widely spread investors. One-half of the total was retained for Glasgow, one-third for Edinburgh, and the remaining one-sixth divided among the rest of Scotland and England, while no one partner was to hold more than five hundred or less than ten

<sup>(1)</sup> The "deeds of co-partnership" of the Scottish banks corresponded in purpose and essential content with the "deeds of settlement" or "deeds of co-partnership" of early English joint stock banks. They were, however, different in format. Whereas the English deeds usually consisted of large sheets bound into book form, the Scottish were made up of numerous sheets sewn together into long rolls. Thus the North of Scotland Bank deed measures 60 feet from end to end, and that of the Clydesdale Bank 130 feet.

shares. The first chairman of the bank was James Lumsden,<sup>(1)</sup> a partner in a firm of wholesale stationers, a man immersed in the affairs of the city and described by a contemporary as "literally known to everybody". So cordial was the reception accorded to the new bank that the shares commanded a premium of 15s. on the allotment price of £2 12s. 6d. before the first call had been paid. The bank opened for business on May 7, 1838 in Miller Street.

Whatever the stated geographical limitation of the bank, it was clearly essential, in view of Edinburgh's financial importance, that it should have a branch in the capital city, and accordingly an office was opened there at the same time as the head office in Glasgow. The arrangement made provides an interesting link with an old private banking firm, since the office and, it is believed, some part of the business of Ramsays, Bonars and Co. were taken over. In the course of time private bankers in Edinburgh had come to occupy the curious position of intermediaries between the merchant or manufacturer and the old chartered banks; the merchant approached the private banker, who in his turn applied for credit from the chartered bank. The relationships were strengthened by the fact that many members of private banking firms were also on the boards of chartered banks. Among these intermediaries was Ramsays, Bonars and Co., enjoying at the beginning of the nineteenth century a high reputation all over the country and in London. As with the English country bankers, the origin of the firm was rooted in trade. It was founded by James Mansfield, a "little draper" of the city, who enlarged the scope of his activities by dealing in bills of exchange until, in 1738, he emerged as a private banker. The firm acted as principal agent in the city for the Royal Bank of Scotland, and at various times several partners of the private bank served on the board of the Royal. The relationship was severed by a violent quarrel in 1816. Allegations were made that partners of the private firm on the board of the Royal Bank had made use of their position to further the interests of the partnership as against those of the chartered bank. Both parties to the

<sup>(1)</sup> Lumsden had already been concerned in one bank formation, for he was interested in the foundation of the Union Bank of Scotland, established in 1830, though he with others withdrew his support before the bank opened for business. The other first directors of the Clydesdale Bank were: Andrew Tennent, William Gilmour and William Mirrlees, all merchants; Robert Galbraith, silk mercer; James Merry, junior, coal master; and John Mitchell, merchant and shipowner.

dispute issued long documents of accusation and defence, the net effect of which was to make a resumption of the business connection impossible, to discredit the system generally by bringing to light its dangers and weaknesses, and to hasten the decline of the remaining private bankers. The firm of Ramsays, Bonars survived for a few more years, but the trend of affairs was against them and, following heavy losses after 1830, they voluntarily relinquished business in 1837. A year later their office was bought from the surviving partners by the newly-formed Clydesdale Banking Company. William Fleming, a partner of Ramsays, Bonars at the time of dissolution, was appointed manager of the Edinburgh branch of the Clydesdale, and it may therefore be presumed that by his personal influence and exertions the banking company fell heir to a portion of the business and goodwill of the old private firm.

Despite the expressed intention of the promoters, the Clydesdale Bank after only ten years of working possessed ten branches in places as far apart as St. Andrews and Campbeltown. It was, nevertheless, still within the geographical limits implied by its title, for the branches were all established in the central lowlands. That the changed policy was successful is amply demonstrated by noting that during this first decade the capital of the bank was more than doubled, a reserve of £140,000 was accumulated, deposits grew to exceed £1 million, and notes in circulation expanded to nearly £130,000. This is a remarkably good record when it is considered that the bank was faced with keen competition, which itself provided one of the reasons for a widening representation.

Some of the contemporary formations with less enterprise were unable to acquire a permanent place in the financial arrangements of the city. Thus the Glasgow Joint Stock Bank, a strictly local institution, did not survive for long. It was founded in 1840 with a capital of £1,500,000, in shares of £20 each, of which about £550,000 was paid up. The bank at first "met with great encouragement", a reception revealed by an immediate premium upon the market price of the shares. After one year of operation the new bank announced a profit of £18,000, the whole of which was prudently placed to reserve. The second report, presented in 1843, showed slightly increased profits, permitting the payment of a dividend of 5 per cent, but in other respects the position revealed was disappointing. Deposits showed little increase,

and were still less than one-fifth of the paid-up capital, so that the bank was operating largely upon the funds supplied by the shareholders. There was, moreover, little likelihood of acquiring any considerable note issue within the city, where notes put into circulation quickly returned for payment. The bank had not succeeded in winning the support of the public, and, although the business acquired was sound enough, it was far too small to support a separate institution. The truth is that the day of such local banks was already past, and four years after establishment the undertaking relinquished its separate identity.

A somewhat similar experience was met by other small joint stock banks of this fruitful period. The town of Greenock, situated on the estuary of the Clyde and thriving on the old-established industries of shipbuilding and sugar-refining, received a full share of the increasing activity of the district. Yet until 1840 there had been no banking company formed within the town, and it was still served by two indigenous private firms. In that year, however, a new joint stock bank was projected under the title Greenock Union Bank, and subscriptions were invited to a capital of £1 million in £20 shares, one-half paid up. It proved difficult to attract so considerable a capital in a relatively small town, and, even when the amount to be called up on each share was reduced to £5, fewer than 16,000 shares were placed. The resulting capital of approximately £80,000 was regarded as sufficient at the outset, and the bank opened for business before the close of the year. Quite soon three branches were placed in the western highlands and one at Port Glasgow, mainly for the purpose of extending the note circulation, and after the second year of working a dividend of four per cent was paid.

It required but little experience to show that the bank was seriously hampered by lack of capital, and, despite strenuous efforts to surmount initial difficulties, it was unable to make headway. The failure of one of the old private banks in 1842 created considerable local disturbance, and the position of the Greenock Union became still more precarious when in 1843 the Western Bank of Scotland, a powerful and aggressive newcomer, took over the business of the other. Faced with this new difficulty, the directors of the Greenock Union decided to seek a strong partner, and almost immediately opened negotiations for absorption

by the Clydesdale Bank. The terms proposed, involving equality of share values, were refused by the Clydesdale, and the Greenock Union then applied to the Western Bank, only to receive an unflattering offer which was "respectfully declined". In a chastened spirit, the bank again approached the Clydesdale, and by February 1844 negotiations for absorption were completed.<sup>(1)</sup> So ended the brief career of this small institution, its deposits of about £80,000 and note circulation of roughly £22,000 being added to the growing figures of the Clydesdale Bank.

This same decade brought some degree of revival to the old-established Scottish wool manufacture. Although operating mostly along the Tweed, and grouped around Hawick, Jedburgh and Galashiels, the industry spread westward, and in time a rival centre arose in Dumfries. As might be expected, increased activity encouraged banking enterprise, and in 1838 there appeared the prospectus of a new banking company to be called the Southern Bank of Scotland. The long and persuasive document pointed out that the financial needs of the neighbourhood were served by branches of "distant banks" which, it was alleged, "carried off the gains" from business entirely local in origin. Accordingly it was proposed to establish a "native bank" with a head office at Dumfries, and subscriptions were invited to the capital of £500,000 in £20 shares. The response of the public was not encouraging, possibly because the promoters, while advertising the project in Edinburgh and London, made no effort to interest Glasgow. Eventually nearly 6,000 shares were subscribed with £5 paid up, and the bank opened for business in June 1838. Within a short time five branches were opened, and a business connection almost wholly agricultural was acquired. By 1841 the shares, bearing the uninspiring dividend of five per cent, stood at a premium, but it soon became apparent that the bank was suffering from insufficient capital and lack of support. The active agricultural business, stimulated by a rising local wool industry, was largely seasonal, and a liberal supply of capital was necessary at regular periods of the year. This the bank was not able to command, and customers' legitimate needs could not be met. After four years' working, deposits amounted to only

<sup>(1)</sup> The terms were: five Greenock Union Bank shares (£5 paid up) taken at par for two Clydesdale Bank shares (£10 paid up) taken at £12 10s. each. The resulting premium of £16,000 or thereabouts went to the reserve fund of the Clydesdale Bank.

about £75,000, and the note circulation to £20,000. In these circumstances the Southern Bank decided to accept an offer of amalgamation coming from the Edinburgh and Leith Bank in 1842.

The spate of new banking companies exemplified in these various foundations was not confined to the south. Aberdeen was at this time thriving on its principal industries of shipbuilding and polished granite. Lacking the mineral resources of Glasgow, the six shipbuilding firms of the port concentrated upon improving their sailing vessels to compete with the new paddle steamers, and produced a marvel of combined speed, grace and economy in the Aberdeen clipper. Meanwhile the county had come to the forefront in the improvement of agricultural methods. Rotation of crops replaced the old "field" system, and a beginning was made upon a great live-stock industry, encouraged by new shipping facilities, which made it possible for animals to be carried to Leith or London without the loss in weight and value consequent upon a long journey over land.<sup>(1)</sup>

In these favourable circumstances the Town and County Bank had rapidly established a valuable connection; it had opened nine branches during its first ten years, one of them as far north as Wick. The first year brought a minor difficulty in that the agent at Stonehaven, stimulated by a system of payment by commission on bills discounted, sought business with more energy than prudence, and so brought losses to his bank from "promiscuous bills past due". Thereafter agents received fixed salaries in lieu of payment by results, and the bank made steady progress. Apart from the two locally formed Aberdeen banks which retained their independence, much of the business of the north was still conducted through branches of Edinburgh institutions, and in the city of Aberdeen itself there were four branch banks, two of which were opened in 1835. The position suggested that an additional local bank would prove a profitable enterprise.

The new bank arose, like the Town and County, in response to the need for greater banking facilities, but, whereas the earlier bank was promoted by a group of merchants and traders, the new company was brought into existence by a firm of local lawyers, acting upon the great prestige long associated with the legal profession in Scotland. The motive power for the new project came mainly from Alexander Anderson, of a local firm of advocates.

<sup>(1)</sup> For some of the general economic data concerning Aberdeen the authors are indebted to Dr. Henry Hamilton, of Aberdeen University.

He had already embarked upon one considerable financial undertaking by forming the North of Scotland Insurance Company, and this second venture of his fertile mind was as carefully planned and as ambitiously framed as the first. In May 1836 the prospectus appeared for a new bank to be known as the North of Scotland Banking Company, formed, in the words of the preliminary announcement, "to supply the daily increasing demand for Banking accommodation, on a system more suited to the spirit of the times, [to meet the needs of] landed proprietors, . . . resident capitalists labouring under the prevailing difficulty of obtaining safe and profitable investments, and more particularly . . . the industrious middle classes, actively engaged in agriculture, commerce and manufactures in the North of Scotland".

The title chosen by the new bank, as well as the wording of the prospectus, clearly envisaged an institution with a widespread branch system. This, with the current business optimism of the time, led the promoters to fix the nominal capital at £1 million, with a provision giving power to the directors to increase it three-fold if they thought necessary. Shares of £20 were at first to be paid up as to £5 per share, and the bank was to be considered formed when one-fourth of the shares had been subscribed. The advocate promoters had judged their public and their opportunity well. Shares of such small denomination proved a great attraction, and the requisite one-fourth was quickly surpassed. About 35,000 shares were taken up, largely in Aberdeen and district, "less alacrity" being shown in the northern counties. Following the constitution of the Town and County Bank, a large board was stipulated in the contract of co-partnership; control was to be exercised by a governor, deputy governor and thirty-two directors, of whom Anderson was one. With a paid-up capital of about £175,000 the bank opened for business in Aberdeen in November 1836. An original member of the staff of the bank was one who later came to rank among the great English country bankers.<sup>(1)</sup>

Again following the example of the Town and County, the new bank quickly developed a branch system, first in association with the agriculture and industry of the county, but quite soon spreading to the fishing towns of the east coast, which were steadily increasing in importance. Thus by 1845, while the older bank had opened nine branches and shown an early interest in the fishing trade,

<sup>(1)</sup> See biographical sketch: George Rae.

the North of Scotland Bank, although later in the field, had been even more progressive. After only nine years of life it possessed twenty-five branches and sub-branches, spread along the coast as well as through the interior. This early achievement did not, however, result from an unbroken advance. Early in life a sharp check had been met in an unusual form. The governor of the bank was an exalted member of the Scottish peerage, and three years after his appointment he was reported to have accepted a similar office in the Caledonian Bank. Naturally, this intimation did not please his original board, but scarcely had the ink dried on their protest when he was declared insolvent, and so disqualified from holding office. The loss to the bank from his failure was stated to be about £5,000, and there were references to heavy debts to other bankers. Appointing as his successor one<sup>(1)</sup> of lesser rank but greater substance, the bank continued to grow rapidly. By 1844, with a paid-up capital of £250,000, a reserve of £40,000, note circulation of £178,000, and deposits of more than £630,000, it was overtaking the Town and County.

As in the north and south, so in the eastern counties economic progress was rapid. The linen trade maintained its lead, and with the introduction of the power-loom in 1836 became still more closely centred in Dundee. There were, in consequence, additions to the banking facilities of the district, and one of them forms part of this story. The Eastern Bank of Scotland, hurriedly established in 1838, issued a speciously worded prospectus inviting subscriptions to a capital of £1 million in shares of £25 each. Formed ostensibly to provide further banking facilities for the growing burgh of Dundee, where, it was alleged, there was no bank of sufficient capital to finance a rapidly expanding trade, the new institution received immediate support from the public, and 25,000 shares were taken up. A novel feature of organization provided the projected bank with two head offices, one in Edinburgh and one in Dundee, with a board of directors in each place, although by the terms of the prospectus it was not intended that the bank should open branches in the ordinary sense of the word.

In July 1838 the Eastern Bank opened for business under this unusual system of direction, proceeding to call up £15 per share and so obtaining a capital of about £375,000. Immediately upon formation it was announced that arrangements had been made

<sup>(1)</sup> H. L. Lumsden was appointed governor.



to take over the business of the Dundee Commercial Bank, and when the transaction was completed it became clear why the new bank had so swiftly recognized the need for "additional" banking services. The Commercial Bank<sup>(1)</sup> had been established in 1825, with a capital of £50,000, and, although moderately successful for the first five years of working, was swept by the rapid development of succeeding years into grave difficulties. This was carefully hidden from the partners, and it was not until the dissolution of the co-partnership for the purpose of amalgamation with the Eastern Bank that the true position was made known to them. They then learned that an amount of one-and-a-half times the capital had been lost, that the amalgamation had taken place to avoid the public clamour which would have attended so disastrous a failure, and that, as only approved and solvent accounts were being taken over, a call of £40 per share would be required to cover the deficit. Against this loss the premium of £20,000 received from the Eastern Bank in payment for "goodwill" gave but small compensation, though after liquidation a total of £13 10s. per share was returned to the unfortunate partners.<sup>(11)</sup> Nevertheless, it is probable that still more serious loss would have resulted had not the amalgamation served to prevent a sudden revelation of insolvency, with the inevitable run and accompanying distress.

The absorption, which was thus justified in some measure upon grounds of public policy, proved also to be a sound business transaction from the point of view of the new bank. For a moderate outlay of £20,000 the Eastern Bank acquired an active business, with deposits of approximately £250,000 and a note circulation exceeding £30,000. Unfortunately, the new institution, by reason of its system of dual control, was from the very beginning subject to internal dissension and weak management, so that the ill-fortune which had attended its predecessor dogged the first steps of the Eastern Bank. After a year's successful working a heavy loss was encountered, and this brought about a difficult situation, only surmounted by timely assistance from a

<sup>(1)</sup> This was the second company of the same name in Dundee. There is a curious link between the two. The Dundee Commercial Bank (No. 1) was founded in 1792 and reorganized as the Dundee New Bank ten years later. The accountant and teller of the New Bank were among the promoters of the Dundee Commercial Bank (No. 2), and consequently the first shareholders and customers of their enterprise were largely drawn from the connection of the New Bank. The business of the Dundee New Bank was absorbed by the Dundee Banking Company in 1838.

<sup>(11)</sup> C. W. Boase: A Century of Banking in Dundee (1867).

neighbouring bank. The low dividend payments which followed were accompanied by a decline in the value of the bank's shares on the local market and, although a change was made in the office of general manager, recovery was slow. Dubious means of arresting the downward trend were employed when the bank began the dangerous practice of dealing in its own shares to a considerable extent, a policy which failed in its object. A more hopeful and far sounder step was taken when, notwithstanding the restrictive wording of the prospectus, five branches were opened, but by 1843 the "doubtful" assets amounted to about £80,000, more than one-quarter of the capital. The clumsy arrangement of two head offices with separate boards of directors continued to present an effective bar to progress; conflicting direction and uncertain control characterized the bank's history until the difficulty was resolved, in 1844, by complete separation of the parts.

A larger and much more important undertaking in the Edinburgh district was the Edinburgh and Leith Bank, also born in 1838. The promoters announced that it was established for the benefit of the "industrious middle class"—a favourite appeal in Scottish bank prospectuses—and it is evident from the ready welcome accorded to the project that the expression of its aim was well selected. The capital of £500,000 was composed of £5 shares fully paid—an unusual arrangement—and here again the experiment attracted widespread applications, this time not only from the immediate district, but also in considerable quantity from England and Aberdeenshire. In all, over 140,000 shares were applied for, but the committee allotted only 70,000, all to subscribers in the neighbourhood, retaining 30,000 for future issues. The shares quickly commanded a premium, and held it for a number of years. As with the banks established in Aberdeen, a large number of extraordinary directors—"those graceful and useless appendages"<sup>(1)</sup>—were appointed. The first board contained nine ordinary and twenty extraordinary directors, drawn mostly from among the merchants of Edinburgh and Leith, and the bank opened for business on January 2, 1839. Almost immediately negotiations were begun for absorption of the Leith Bank, an old private firm dating from 1792, but terms could

<sup>(1)</sup> Sir Walter Scott was elected to serve in this capacity on the board of an assurance company and described himself and his office in these words: "I am one of those graceful and useless appendages, called Directors Extraordinary—an extraordinary director I should prove had they elected me an ordinary one." *Diary of Sir Walter Scott*, Dec. 13, 1825.

not be agreed upon, and the new company at once placed a branch in Leith. In the course of the year branches were opened at six other manufacturing towns on the Edinburgh side of the country. The enthusiasm with which the shares of the bank had been received was treated as an augury of future prosperity, and when within a few months it was possible to advance over £38,000 to the Eastern Bank, already in difficulties and needing funds to meet "a sudden emergency", it seemed that the strength of the new company had been proved. A moderate dividend of five per cent was paid and a reserve of £24,000 accumulated within three years, so that the bank showed every sign of justifying the confidence displayed at its establishment.

In 1842 the bank, now one of the most popular in Edinburgh, pressed a vigorous policy of territorial expansion. The difficulties then being encountered by the Southern Bank of Scotland presented an opportunity which was seized upon, and the institution, with its six branches, was absorbed. Two years later the Glasgow Joint Stock Bank was taken over, and the paid-up capital increased to £1 million, the title being broadened to "Edinburgh and Glasgow Bank". Among the advantages sought by the Edinburgh bank in its choice of a partner was an outlet for surplus funds which could not be employed profitably in the capital. Following the unhappy precedent of the Eastern Bank, an arrangement of two head offices, this time at Edinburgh and Glasgow, was adopted, and again the dual system of direction proved faulty. The progressive policy of the bank was one inevitably involving a more than average degree of latent risk, which, except under the most firm and skilful management, was liable to lead to a strained position. The absence of centralized control was later to prove a fatal weakness.

The course of Scottish banking, as exemplified in this story of a number of institutions, now reached a turning point. The eager eyes of the reformer, Peel, brightened by the triumph in England of the "currency" over the "banking" school, fell at this stage upon the treasured free banking system of Scotland, and there is little doubt that Peel envisaged the ultimate unification of note issues throughout the United Kingdom. Accordingly, in 1845 the passage of an Act through Parliament subjected the Scottish banks to regulation of their note issues. For each bank the average issue outstanding in the year to May 1, 1845 was made

the maximum fiduciary issue. Henceforth for every pound note issued in excess of this amount the bank was required to hold a pound in gold coin, or in silver coin up to one-fifth of the excess issue. It is unnecessary here to expose the patent absurdities of the system. Nevertheless, Peel did allow the Scottish banks privileges denied to the English.<sup>(1)</sup> Upon amalgamation the aggregate fiduciary issue of the two banks concerned would be the authorized figure for the combined institution. Thus there was no natural tendency for the total note issue to decline, and in fact the figure today differs from that set in the original Act of 1845 only by an amount representing the issues of banks which have failed.

It will be observed from the title of the Act, "to regulate the Issue of Bank Notes in Scotland", that the problem of banking control was approached, as in England, by concentration upon one function only of banking activity, that of note issue. To the nineteen Scottish banks then in existence, however, this aspect of their business was still of paramount importance, not only because the issue was unrestricted, but also because, unlike the English banks, they retained the privilege of issuing notes of as low denomination as one pound. The total authorized issue for the whole of Scotland was fixed, in the manner described, at £3,087,209, of which rather less than one-third was in the hands of the three old chartered banks, while the Clydesdale Bank was allocated £104,028, the Edinburgh and Glasgow Bank £136,657, the Eastern Bank of Scotland £33,636, the North of Scotland Bank £154,319, and the Town and County Bank £70,133. It will be observed that as a result of vigorous branch extension the North of Scotland Bank had acquired an average note issue exceeding that of the Clydesdale Bank and over twice as large as that of its older rival, the Town and County Bank. In course of time, however, the fiduciary issue of the Clydesdale was more than doubled by virtue of amalgamations. The effect of the regulations, in the special circumstances of Scotland, was to place in the hands of the existing banks of issue a virtual monopoly of banking, a result antagonistic to the whole previous course of events. Indeed, the note issue was held to be so essential a part of Scottish banking that, if a few exchange companies be excepted, no new banks were established after 1845.

<sup>(1)</sup> Compare also the provisions of the Irish Act, chapter XII.

The similar banking legislation applied to the joint stock banks of England also resulted in an abrupt check to banking development.

The effectiveness of the monopoly conferred upon the existing banks of Scotland is well illustrated by a contemporary endeavour to establish a bank in Glasgow without the privilege of note issue. In October 1844 the prospectus was published of a new banking company, to be entitled the Bank of Glasgow, with a capital of £1 million in shares of £20, on each of which £10 was to be paid up. The document, after commenting upon the reduction in the number of banks to nineteen by way of amalgamation, announced that, in anticipation of restrictive legislation, the new bank was to be non-note-issuing. The promoters, indeed, were bold enough to assert, notwithstanding that banks with extensive branch systems found note-issuing an indispensable part of their business, that "note-issuing is not banking". They proceeded to point out, quite truly, that there was no great profit to be made on issues from a purely local institution like the proposed new company, which was to be "unfettered in its movements by extraneous dependencies". The audacity of the proposal was not at first evident to the inhabitants of Glasgow, and within a month the shares had been fully taken up, premises engaged, and six directors appointed. It was not easy to find a manager, but eventually an official from Liverpool undertook the office. His selection was announced early in January 1845, and at the same time notice was given of a first call of £2 10s. a share. At this stage the Glasgow newspapers became filled with abusive letters prophesying ruin for the projected bank and freely denouncing its basic principles, its manager and directors. It was openly stated, not without bitterness, that the directors were acting without the consent of the shareholders, and that the great body of proprietors had no wish for the bank to continue. "The little glory of being a Bank Director", runs one such letter, addressed in apostrophe to the directors, "is not to be attained by every man, and that high honour having been (by your own act, and without the voice of others being heard against it) reached by you, it is unreasonable so soon to expect you to abandon it. True, you may be self-elected; but what of this?—it is only more natural that you should also be somewhat self-willed."<sup>(1)</sup> With the tide running so heavily against them and the added uncertainty

<sup>(1)</sup> *Glasgow Herald*, January 20, 1845.

of pending legislation, the directors treated for absorption. Negotiations were concluded with the Clydesdale Bank, whose paid-up capital was accordingly increased by about £240,000.

A second particular result of the Scottish legislation is worth relating, as part of the history of one of the banks here considered. Just before the passage of the Act of 1845 the directors of the Eastern Bank of Scotland had decided to separate its two sections, at Edinburgh and Dundee, in the hope that as individual entities they would achieve greater success. For this purpose a deed of separation was drawn up, the Dundee section inheriting the name and title of the original bank. The Edinburgh directors forthwith issued a prospectus under which their part of the bank was to become the "North British Bank". The original capital of the Eastern Bank was reduced by one-third repaid to partners, and at the same time a sum of £2 per share was retained to provide for bad debts, leaving a net paid-up capital for the Eastern Bank, Dundee, of £120,000. Unfortunately, before the arrangements were completed the legislation prohibiting the formation of banks of issue passed through Parliament, and the new bank in Edinburgh found itself deprived of the right of note issue. Placed in this grave dilemma, application was made to Dundee for reinstatement, a request to which the Eastern Bank would not consent. Finally, the ill-fated North British Bank wound up its business and became the Edinburgh office of the City of Glasgow Bank.

These two incidents exemplify clearly the earliest effects of the new legislation. They showed beyond a doubt that the Scottish public was not prepared to support a new bank penalized by the absence of any right of note issue, and that there was little prospect of any such enterprise succeeding in a struggle against privileged competitors. Consequently, one result of the Act was to strengthen the position of existing banks. The five with which this chapter is more particularly concerned, in common with the fourteen other banks in the country, experienced to the full the effects of the upward swing of economic activity during the second half of the nineteenth century. Indeed, progress was, if anything, too swift. The unduly rapid extension of railways, frequently accompanied by extravagant and optimistic financial arrangements, was supported by a mushroom growth of "exchange companies", formed specifically to make advances upon railway securities out of funds obtained from the public in the form of

deposits at high rates. Most of them failed a year or two after formation, and only one survived beyond 1852. Apart from this unhappy experience, the crisis of 1847, which followed so shortly upon the new Act, was not felt with any great severity in Scotland. There were, however, troubles peculiar to Aberdeen which reacted strongly upon the position of the North of Scotland Bank.

In 1847 the northern city suffered severely from the failure of two large textile firms, one a linen and the other a woollen mill, and the bank was known to be heavily concerned in both. The spread of rumours of large debts gathered momentum on the dismissal of the manager, who had incurred liabilities to his bank to an amount exceeding £30,000. The settlement of note exchanges at Edinburgh moved heavily against the bank, but arrangements were made to meet the demands, and the panic quickly subsided. To restore confidence a committee of shareholders examined the affairs of the bank and reported favourably, though several large bad debts were admitted, the heaviest being due from the two textile firms. In 1850 the true position was revealed at a special meeting of shareholders. More than a quarter-of-a-million pounds had been lost, a deficiency sufficient to absorb the whole of the reserve fund, together with one-half of the capital.

At the same time other disquieting features appeared. Alexander Anderson, having promoted the bank and several insurance companies, had embarked upon a multitude of schemes for the ultimate improvement of his native city, notably for the erection of market buildings, the rebuilding of streets and the promotion of gas and railway companies. Naturally Anderson was a customer as well as a director of the bank, and his accounts ran into large figures. In all, his various enterprises at this time were indebted to his bank to a total of roughly £200,000, and although it was then believed that only one-half of this sum was recoverable, no reference was made in the report to the heavy risk involved. The realized losses, due largely to reckless mismanagement by the dismissed chief officer, were in themselves sufficient disaster. The usual "safety" clause in the bank's contract of co-partnership gave ample grounds for dissolution, but the shareholders agreed to carry on the institution, meeting the losses by writing off one-half of the capital to £190,000. Their confidence was justified. Anderson's projects developed favourably, with practically no loss to the bank, and it is evidence

of the growing trade and commerce of Aberdeen that within seven years the bank had recovered from this grave setback, and was able to announce that the nucleus of a new reserve fund had been set aside. The lessons of adversity were not forgotten; the bank began to publish balance sheets in 1854 "as is done by many of the joint stock banks in England",<sup>(1)</sup> thus setting an example followed sooner or later by all the Scottish banks. Within two years the direction of the bank was reformed by abolishing the offices of governor, deputy governor and the twenty-one extraordinary directors; ever since the bank has been controlled by a board of from ten to fourteen directors electing its own chairman. With deposits of about £1 million and thirty branches, the bank was at this time about the same size as its neighbour and rival, the Aberdeen Town and County Bank, whose career had been undisturbed.

Similarly, the Act of 1845 left the way open for the development of the southern institutions. The Clydesdale Bank achieved a steady advance, so that by June 1857 the paid-up capital exceeded £800,000, deposits were £1½ millions, and notes outstanding amounted to £153,000. In contrast, however, with the expansion of the North of Scotland Bank, the Clydesdale had only fourteen full branches in operation, even after the absorption of the Greenock Union Bank in 1844. The eighteen months from 1857 brought a pronounced increase in the scope of business. With capital unchanged, deposits moved to over £3½ millions, notes in circulation increased to £542,000, and the number of branches grew to forty-five. This alteration in status took place in two steps. A section of the Western Bank was taken over in 1857, and in the following year an arrangement was carried through for amalgamation with the Edinburgh and Glasgow Bank. Both steps were in part a sequel to the second of the great Scottish banking crises.<sup>(2)</sup>

The failure of the Western Bank, in 1857, was in a sense the outcome of general disturbance.<sup>(3)</sup> Even so, heavy responsibility for the disaster rested upon the bank's own shoulders, for on two or three occasions in its brief history the daring policy pursued had been sharply reprovved by Edinburgh banks, and in 1844 a large loan had been obtained from the Bank of England to meet a position of critical, if temporary, difficulty. Among the public,

<sup>(1)</sup> The directors would have been more accurate had they substituted "London" for "England". See chapter I.

<sup>(2)</sup> The first resulted from the failure of the Ayr Bank in 1772.

<sup>(3)</sup> See chapter I.



however, the bank was so highly esteemed that within twenty-five years of life it had grown into one of the largest banks in Scotland. Nevertheless, the events of 1857 found it still possessed of insufficient reserves and deeply involved, through close connections in New York, in American difficulties. A loan of £500,000 from the Edinburgh banks, supplemented by an advance<sup>(1)</sup> of £100,000 from the Clydesdale Bank, proved insufficient to meet accumulating difficulties, and on November 9 the bank stopped payment. Public alarm showed itself in a general run upon Scottish banks, especially in Glasgow, and the following day the City of Glasgow Bank closed its doors, though business was resumed after five weeks—a comparatively trivial anticipation of a far more disastrous closure twenty years later. Other banks were constrained by the disturbed conditions to increase their cash reserves; the Clydesdale Bank, for example, doubled its stock of gold coin between the date of the failure and the end of the year. The Western Bank was liquidated, and the Clydesdale Bank took over thirteen of its branches, together with their good business, one of which carried the name of the Clydesdale as far west as Tobermory.

The strained position and the general run imperilled other institutions besides the two which were actually forced to close. Many business failures occurred, while several companies, including banks, fell into discredit. Among these was the Edinburgh and Glasgow Bank, which, now enjoying a large and growing deposit business and note issue, had been tempted into over-extension in the years of railway speculation, incurring large losses in the period 1845-7. Antagonism between its separate boards, at Edinburgh and Glasgow, resulted in ineffective direction and weak management,<sup>(11)</sup> until the serious position of affairs could no longer be withheld from the shareholders. In 1850 the directors recommended that the paid-up capital should be reduced from £1 million to £500,000 to meet deficiencies, and revealed the disquieting fact that shares to the amount of £350,000 paid up were at that time in the hands of the bank itself. Although a reserve fund of £152,000 was stated to have been lost already, the proposal was not adopted; the bank appeared for a time to recover, and pursued a course of apparent prosperity. The core of the business was demonstrably sound and even flourishing, so that the shares

<sup>(1)</sup> Actually this took the form of a Western Bank bill discounted by the Clydesdale Bank on October 31 and retired six months later.

<sup>(11)</sup> Compare the Eastern Bank of Scotland, page 381.

on hand were disposed of at a premium. Yet the burden of unrealizable assets, combined with the division of responsibility between the two head offices, presented a continuous source of difficulty, and co-operation among members of the personnel was in no way simplified by the appointment as manager of the erstwhile cashier, or chief officer, of the Royal Bank of Scotland, who had suffered dismissal from the chartered company on the grounds of temperamental inability to submit to control.

The result of these unfavourable arrangements was that a prosperous business rapidly lost its character, and the bank was in fact maintained solely in the hope of achieving a respectable amalgamation or meeting with some exceptional good fortune to restore lost ground. Although the method of control was at last improved by fusing the two boards, matters had gone too far, and a final blow was delivered in the troubles of 1857. In the following February it was announced that the losses on railway securities greatly exceeded the sum mentioned eight years earlier, and that it was now essential to carry through the reduction of capital by one-half. Difficulties already grave enough were accentuated by the leakage of confidential information as to the state of the bank through the corruption of junior clerks, and the alarmed co-partners began throwing their shares upon the local stock market. It was at this stage that relief was sought by amalgamation with the Clydesdale Bank. From available records it has been calculated that the Edinburgh and Glasgow Bank, with a paid-up capital of £755,000, an authorized note issue of £1,366,577 and deposit accounts of more than £1 million, had incurred in the twenty years of its life losses amounting in all to £965,000, of which £670,000 had arisen in Edinburgh. After investigation, the Clydesdale Bank agreed to pay in stock or cash the surplus of assets over liabilities of the Edinburgh and Glasgow Bank, at first estimated to amount to £165,000. In fact, so far from a surplus, an actual deficit appeared, and the Clydesdale directors declined to allocate any stock to the unfortunate shareholders, feeling that they had done quite enough in relieving them of an onerous burden. So it was that the nineteen branches of the Edinburgh and Glasgow Bank at long last came under practicable control and direction, the lack of which had consistently impeded their progress. The Clydesdale's bargain, if it may be so described, had not by that time worked itself out; three years later over £25,000 was written



*(From the portrait by James Gunn)*

**FREDERICK HYDE**



*[From the portrait by James Gunn]*

FREDERICK HYDE

off from reserve to meet deficiencies on the Edinburgh and Glasgow Bank account.

From the records of the two northern banks it seems that the panic of 1857 was not acute in their area, but one of them, again the North of Scotland Bank, became embroiled in a serious public dispute unconnected with the crisis. John Duncan, an influential advocate of Aberdeen, who was interested in a railway scheme opposed to one of Anderson's companies, published a letter in the *Free Press* alleging improper use of the funds of the North of Scotland Bank, and drawing a calumnious parallel with the affairs of the notorious Royal British Bank. The indignantly worded letter, published at a time of growing uneasiness in monetary centres, seriously disturbed a number of depositors and shareholders, and the business temporarily declined under this adverse influence. It was not sufficient for the bank to publish a complete denial of the statements, and an action was laid against their author; all the defamatory allegations were publicly withdrawn, and an apology tendered to the injured bank. Confidence was thus completely restored, and the bank entered a new area by taking over the business and premises of the Western Bank at Montrose. It was about this time, too, that the North of Scotland Bank, with a capital of £200,000, a reserve fund exceeding £50,000 and deposits of roughly £1½ millions, crept above the run of figures for its senior competitor, the Aberdeen Town and County Bank.

Not long after the troubles of '57 the Clydesdale Bank, which had come through the turmoil with added strength, took another important step forward by absorbing, in 1863, the Eastern Bank of Scotland. As already related, this Dundee bank had arisen when the town was prosperous and thriving as a centre for the linen industry, and for six years of its early life had experienced the difficulties associated with feeble management and divided control. It was not until the complete separation of the Edinburgh business, in 1844, that progress became possible. Thereafter the bank had enjoyed a history of tranquil prosperity far different from the storms of the opening years. Careful and centralized management achieved steady progress; regular dividends were paid, a reserve fund was accumulated, and the bank grew strong enough to recover rapidly from the troubles of 1857. The years of its life had seen a complete transformation in the textile activities

of Dundee; linen manufacture had tended to become localized more and more completely in Northern Ireland, but Dundee was compensated for the loss of this trade by the adoption of a new textile, and the town quickly became the great jute manufacturing centre of the United Kingdom. Such violent changes were bound to be accompanied by individual hardship, illustrated by many business failures in Dundee after 1857. But in general the obvious prosperity of the town and the rich reward accruing to pioneers in the jute trade led those banks pursuing a vigorous policy to seek a footing in the new industry. The Clydesdale Bank had no connections north of the Tay, and anxiously sought a means of entering Forfarshire. As one of the few remaining small provincial institutions, the Eastern Bank presented an excellent opportunity for such expansion, and accordingly, in 1863, the Clydesdale Bank offered a substantial premium for the business of the Dundee institution. Terms<sup>(1)</sup> were soon agreed upon whereby the Clydesdale Bank took over the good business of the Eastern Bank and its branches, thus acquiring a further increase in authorized circulation, and new deposits amounting to about £330,000. It thereby entered a field that was entirely new to it, both geographically and economically.

This was the last of the Clydesdale Bank's amalgamations. Largely through them it had developed into an institution which, though still somewhat restricted in geographical scope, enjoyed a wide range of economic interests. The business now embraced an unusual variety of manufacturing interests, accompanied by a substantial concern in agriculture. The process of expansion and absorption, which established contacts with such diversity of economic activities, had been assisted and encouraged by the development of transport facilities in Scotland. Progress in railway construction had been rapid since the 'forties, and by 1865 over 2,000 miles of railway line were in operation. In a country of such irksome transport problems as Scotland the benefit of a safe and certain means of communication cannot easily be overrated. An immediate effect was to break down the insularity of many outlying districts, and to establish a new compactness of organization which the banks were quick to

<sup>(1)</sup> The arrangement made was as follows:—The capital of the Eastern Bank was £112,000 and the reserve £26,000, a total of £138,000. For this a sum of £22,400 in cash and £89,600 of Clydesdale Bank shares was given. At the time of the arrangement the Clydesdale Bank shares were worth £135,520, thus providing a surplus of £19,920 for the Eastern Bank shareholders.

appreciate. Indeed, they had in some measure anticipated it. Moreover, the provision of rails and rolling stock increased the demand for iron products from Glasgow, and the city later became a noted centre for the construction of locomotives.

For these reasons the amalgamation policy pursued by the Clydesdale Bank received the support of enhanced industrial activity in the principal sphere of the bank's operations. In consequence the bank grew rapidly in size and importance. The two northern banks were differently placed, and, while they also recorded a considerable increase in business, they sought and attained their results by different methods. Whereas the Clydesdale at this period did not encourage small deposits, both the Aberdeen banks sought them with a diligence surpassed only in very recent times. An early branch manual of the Town and County Bank stressed the value of deposits, however small, while the North of Scotland Bank still has records of early deposit receipts issued for sums of less than £1. Lacking the opportunities presented to a bank in the central lowlands, they pressed the old Scottish principle of branch expansion, making the most of their authorized note circulation by opening offices throughout Aberdeenshire and the adjoining counties. In the twenty years from 1855 the North of Scotland Bank opened a score of branches, while the Town and County Bank introduced itself in thirty-three new places of business. Nor was this evidence of branch duplication, for the new offices all served different towns, and were in fact a portent of the growing fame of the neighbourhood as a stock-raising and agricultural district. Both banks remained strictly within their common area. Neither during this period opened branches at Edinburgh or Glasgow, or even at Perth, and it was not until 1873-4 that they went to Dundee. This restriction of sphere was no doubt due in some measure to the strong force of inter-bank agreement which had long characterized the Scottish system, but it was also supported by the increasing economic importance of the city and the county.

The period was a vivid one in the history of Aberdeen. The rapid decline of the town as a shipbuilding centre, due to the rise of the steamship, was accompanied by the acquisition of a highly profitable new industry. Rail communication enormously widened the market for fresh fish, and, when the trade adopted steam tugs and began steam trawling in the late 'seventies, Aberdeen

rapidly mounted in importance and was soon on the way to becoming the principal fishing port for the east coast of Scotland. Meanwhile the coasting trade grew in volume and variety. The rising prosperity is paralleled by the records of the two banks. In 1870 both the North of Scotland and the Town and County Bank began to open branches within the city of Aberdeen, and by 1873 each possessed three such offices. The prosperous period stands out even more clearly in their accounting records. Both paid dividends of between ten and thirteen per cent, and both made considerable additions to paid-up capital from reserve funds. By 1875 the deposits of the North bank had surpassed £2½ millions, while those of the Town and County were not far below £2 millions. The figures speak plainly of the rapid expansion in the trade of the area and the business of the banks.

The records thus achieved, however, are seen in different proportions when compared with that of the Clydesdale Bank, operating in an area of far more striking growth. At the end of 1863 the Clydesdale, then possessed of fifty branches and holding £4 millions in deposits, had set out upon an energetic policy of branch expansion, so that during the next ten years twenty-five new offices were opened, and by 1875 deposits were nearly £7 millions. Most of the ground exploited was still within the central lowlands, but there was plenty of scope in rapidly developing new industries. Nevertheless it was at this stage that the bank undertook a striking entry into an alien field.

The National Bank of Scotland had opened an office in London in 1864, and nine years later the Bank of Scotland followed suit. The declared object of these incursions was to find profitable employment for surplus funds and to meet the convenience of Scottish customers, but there were wider reasons for the step. The growing industries of Scotland had brought an increasing participation in international trade, and London, then rising to supremacy as cash centre and clearing house for the world, inevitably attracted the greater part of this class of Scottish banking business. The results were clearly to be seen, and enabled an informed witness<sup>(1)</sup> before the Select Committee on Banks of

<sup>(1)</sup> James Simpson Fleming, manager of the Royal Bank of Scotland. See also a Memorial to the Chancellor of the Exchequer signed by the Clydesdale, North of Scotland, and Town and County and six other Scottish banks, in which reference is made to London as "the Metropolis . . . where all our operations centre and are ultimately settled" (quoted in R. S. Rait: *The History of the Union Bank of Scotland*, page 305).



Issue, 1875, to speak of the "change which has come over the course of business during the last twenty or thirty years". "It was [then] quite an exception", he explained, "for a Scotch merchant to accept bills payable in London or to think of having a London banking account, but now-a-days it is quite an exception with large mercantile houses in Glasgow and Dundee, and other Scotch towns, to accept a bill payable in Scotland; they are all domiciled in London. Their remittances from abroad come home in the shape of bills drawn on London and payable there."<sup>(1)</sup> This tribute to the unique position of London reveals also a major cause for the incursion of the Scottish banks. Connected with it is the failure of Scottish banking to develop a central reserve system, and its consequent reliance upon London.<sup>(11)</sup>

The arrival of the two old Scottish banks aroused opposition in England, where the view was taken that they were trespassing within the 65-mile radius proscribed to note-issuing banks by the Charter Act. As, however, the National Bank, which operated mainly in Ireland, had possessed London branches for many years, the grounds for this contention were not strong. But the securing of direct representation in London, supported as it was by special circumstances, was the prelude to a more serious and directly competitive move. In 1866 the Clydesdale Bank, which had sought legal opinion upon the subject of a London branch as early as 1855, agreed to join forces with three other Scottish banks in order to obtain an entry into the southern capital. To meet the expressed antagonism of London bankers it was proposed to purchase the business of a successful banking firm in order to obtain a footing, and then to secure the position by forming a joint stock banking company, as a subsidiary, registered under the Act of 1862 with limited liability. The scheme reached the stage of preliminary agreement with a London banking firm, but a halt was called, for the London Clearing House expressed the strong view that the circumstances were such as to preclude the successful establishment of a bank upon the principle of limited liability.<sup>(111)</sup> One of the

<sup>(1)</sup> This striking change of practice is confirmed by the investigations of William Newmarch. In estimates presented in a paper before the Statistical Society in 1851 he makes special provision for bills of exchange which do not reach London, because of "the peculiarity in Scotch bills of making them payable not in London". *Journal of Statistical Society of London*, 1851.

<sup>(11)</sup> In 1863 general instructions were issued from Scottish banks to their branches to follow the movements of the Bank of England rate without awaiting specific notice from their own head offices.

<sup>(111)</sup> See page 300.

four Scottish parties to the scheme was unwilling to proceed in the event of liability being unlimited, and this defection, the influence of which was greatly strengthened by abnormal monetary conditions at the time, caused the proposal to be abandoned.

The project was not left quiescent for long, and the Clydesdale Bank, deflecting the direction of attack and acting now on its sole initiative, flung a strong and even more definite challenge to English banking. In 1874 it opened three branches in north-west England, at Carlisle, Whitehaven and Workington. Geographically the extension was a simple one, but far more important was the economic link which had been forged by recent developments in the iron and steel trades.<sup>(1)</sup> The pressure was all the more forcible by reason of the presence on the directorate of prominent representatives of the industry. The step aroused active opposition among English bankers; the matter was taken to Parliament, and actually reached a stage at which a bill was introduced in 1875 to force Scottish banks to choose between maintaining London branches or retaining their rights of issue. A compromise was effected, in the manner admired by foreign students of the British constitution, by appointing a select committee of the House of Commons to report upon the general position of note issues in the United Kingdom. After collecting a vast amount of material and valuable evidence the committee was unable to complete its task by the end of the Parliamentary session, and was not re-appointed. The Scottish banks, encouraged by these negative results, and regarding them as an admission of the strength of their case, opened London offices in rapid succession during the next few years. Among them was the Clydesdale Bank, which continued the triumph of Cumberland by opening a branch in Lombard Street in 1877.

Very shortly afterwards joint stock banking in Scotland, and indeed throughout the United Kingdom, suffered a reversal so severe that it not only brought ruin upon hundreds of people, but also produced a general change in the constitution of banking companies both in England and in Scotland. In October 1878 the City of Glasgow Bank, then one of the largest and most active Scottish institutions, closed its doors for the second time—on this occasion disastrously. The bank, established in Glasgow in 1839, had year by year presented reports giving an impression of steady

<sup>(1)</sup> See page 133.

growth. Its influence was widespread, for at the time of the collapse it had 133 branches, over 1,200 proprietors, deposits exceeding £8 millions, and a note circulation of £800,000. The figures show that, despite the difficulties of 1857, the bank had enjoyed complete rehabilitation in the esteem of the general public, though other banks of Scotland were by no means entirely re-assured. The return of confidence was more than sufficient to bolster up for a time a crazy but pretentious fabric. In the course of years, however, reckless advances followed by fraud rendered the structure more and more vulnerable. Immediately before suspending payment a desperate request for assistance addressed to the other Scottish banks was followed by a rapid investigation of the state of affairs. It was then thought that the losses would approach £3 millions. The shock to credit, which showed itself in public alarm and failures throughout the country, was in some degree mitigated by a joint announcement that the Scottish banks would continue to accept the notes of the City of Glasgow Bank in the ordinary course of business. Within a few days it became known that the actual loss exceeded £6 millions, that the balance sheet figures were wild fabrications, and that culpable recklessness had gone hand in hand with a long-continued series of deliberate frauds. Shareholders were required to pay calls amounting in final accumulation upon solvent parties to as much as £2,750 per share, and the guilty directors were sentenced to imprisonment.

The succeeding general liquidation pressed hard upon Scottish industry and ruinously on hundreds of innocent stockholders, though, apart from a run upon the banks for gold by the islanders of the Shetlands, there was little evidence of a general distrust of Scottish banking. It is true, none the less, that banks with their headquarters at Glasgow fell into temporary disrepute. Thus the Clydesdale suffered a sharp withdrawal of deposits from outlying branches, and issued a reassuring circular to stem the tide. This restored confidence, but the profits of banking in general were naturally reduced. The bank, forced to hold unusually large liquid resources,<sup>(1)</sup> and concerned in the many business failures which occurred in Glasgow, suffered a fall in net profits of about £20,000, and lowered its dividend to 12 per cent. Even the North of Scotland and the Town and County Bank, though far enough from the

<sup>(1)</sup> The Clydesdale Bank increased its holding of gold coin by over £200,000, or nearly seventy per cent, during the crisis period.

centre of disturbance to report that but little strain had been felt in their district, found themselves obliged to augment cash holdings, and both lowered dividend payments from  $13\frac{1}{2}$  per cent to  $12\frac{1}{2}$  per cent. As a direct outcome of the crisis, the Clydesdale Bank acquired the good business and premises of nine branches of the City of Glasgow Bank in towns where no other banks were represented.

The deplorable collapse, arising from fraud and mismanagement in a single institution, provided a gross exception to the general conduct of Scottish banking. Quite naturally, however, it made the cautious bankers of Scotland sensitive to public opinion, and anxious to place their balance sheet figures beyond question. The directors of the Clydesdale supported their accounts for 1878 by an explanatory statement as to the soundness of the position. The bank was neither a dealer in nor a holder of its own stock, except for the purpose of making up shareholders' odd lots to even amounts, while no director and no official owed the bank a single shilling. Combining both discounts and cash advances, there was only one instance of more than £100,000 having been lent to a single house, however wealthy—a remarkable record for a bank intimately concerned in large-scale industry. A year later the directors attached to the balance sheet a certificate by professional auditors, and suggested that the co-partners should authorize for future years a continuance of this safeguard. So, too, the North of Scotland and the Town and County Bank subjected their balance sheets to the scrutiny of external auditors. The first external audit of the North of Scotland, in 1879, confirmed that the accounts were in order and that the bank was not a holder of its own shares. Attention was drawn to the clause in the deed of co-partnership which permitted shareholders to obtain loans on the security of their shares. The privilege had been abused occasionally when the full market price of the shares had been used as a basis for permanent advances, but the practice was promptly stopped. The balance sheets showed all three banks to be in a strong and liquid position, and, supported as they were by independent certification, could not fail to reassure the co-partners and the public as well.

The old chartered banks of Scotland had always enjoyed the privilege of limited liability, and had in no way failed to retain the confidence of depositors. Yet the joint stock banks,

as in London, were slow to adopt the new facilities provided by "reserved liability".<sup>(1)</sup> Finally they acted in concert, and on an agreed date all seven of the Scottish unlimited banks recommended to their shareholders registration as limited companies, with a common proportion of reserved liability. By such a resolution the Clydesdale Bank became a limited company in 1882, increasing its subscribed capital from £1 million to £5 millions, the unpaid £4 millions not being available for calls except in the event of liquidation. In like manner the North of Scotland Bank raised its subscribed capital to £2 millions, of which £400,000 was paid up, while the Town and County Bank registered a subscribed capital of £1,260,000, with £252,000 paid up. It should be noted that the shareholders remained liable jointly and severally on the entire amount of their respective note circulations.

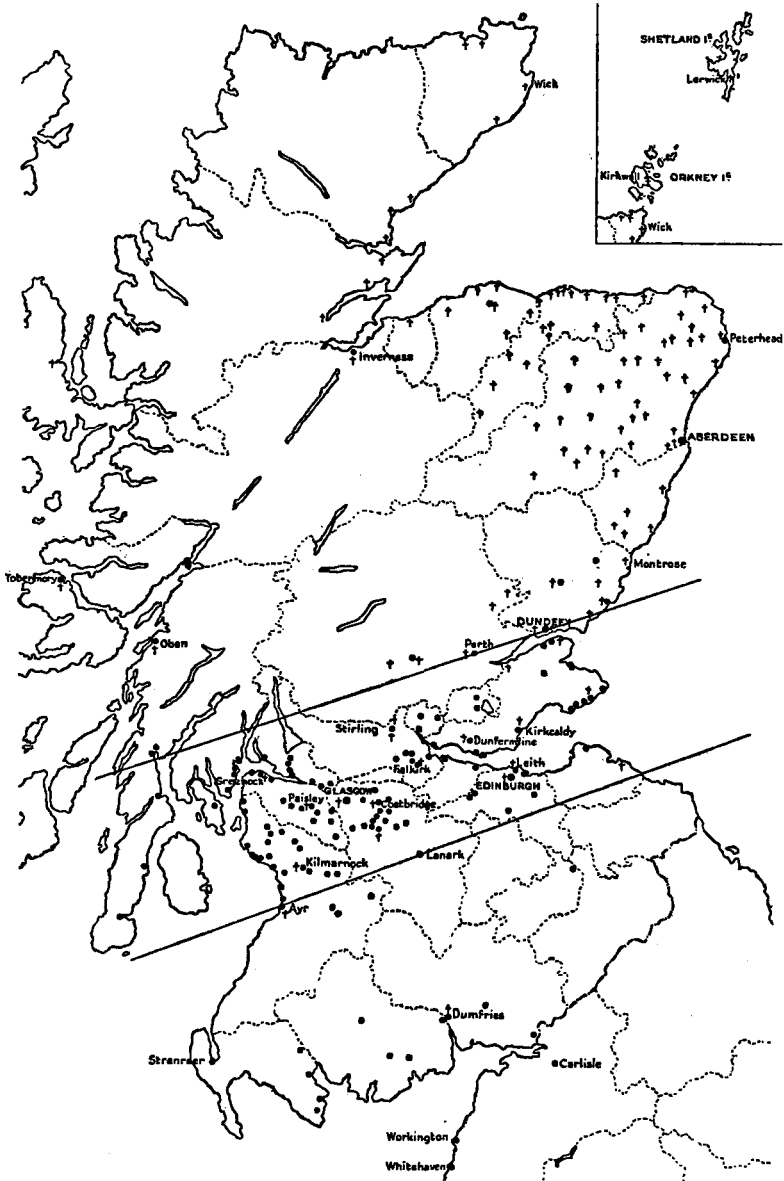
From this time economic development gained momentum. In the last twenty years of the century Scotland, whose iron industry had by now passed its peak, became an important area of steel production, closely centred around Glasgow. Much of the product was used locally, for engineering and locomotive building had reached large dimensions in the home and export trade. Moreover, a huge growth of shipbuilding had been recorded, and the Clyde secured premier place in the world for the construction of all varieties of ships. With the adaptation of steel to shipbuilding, the construction of larger and larger vessels for purposes of peace and war brought into being the great integrated firms in whose hands the industry moved swiftly ahead. In the decade to 1914 British shipyards built over three-quarters of the world's tonnage of new shipping, and both in number and variety the Clyde led the way, with well over one-half the British output.

Native to the city of Glasgow there still remained, after the disaster of 1878, two large joint stock banks, the Clydesdale and the Union of Scotland, and to these fell a large part of the duty of meeting the greatly increased financial needs of the expanding industries. The Clydesdale, at that time the smaller of the two, revealed the trend of affairs in a steady growth of the figures for deposits, notes and advances. The district quickly recovered from the general depression in the metal trades suffered throughout the

<sup>(1)</sup> It is interesting to note that in a first draft of the bill a clause was inserted, clearly aimed at Scottish banks, requiring banks seeking this form of protection to restrict their business to the country in which their head office was situated. The clause was quickly dropped from the bill in the face of strong opposition from England as well as Scotland and Ireland.

United Kingdom in the 'eighties, which, it will be remembered, severely afflicted the black country. An index of the close association of the bank with the trade of the area is given by recording that it was obliged to meet losses at this time of depression by transfers from reserve amounting, in 1886, to £130,000. Fortunately, the reserve by then accumulated exceeded five times that sum. Dividends were reduced from 12 to 10 per cent, but in fifteen years they were restored to the earlier figure, by which time the reserve was as high as £700,000. Nor had the bank remained satisfied with the ground already covered; the policy of branch expansion had been pressed forward, carrying representation as far north as Aberdeen (1903) and Inverness (1916). Nevertheless, the map on page 401 illustrates how closely the branches are concentrated in the central lowlands, the great majority being situated within parallel lines extending in a south-westerly direction through Dundee and Perth in the north and Lanark and Ayr in the south. The number of branches, which totalled 90 in 1883, reached 147 thirty years later.

Throughout the remaining years of the nineteenth century it was a maritime industry again that was stimulating the banks of the north, with their headquarters in Aberdeen and branch systems along the east coast. Herring fishing and white fishing had greatly extended with the improvement of facilities for the disposal of fresh fish and the advent of steam trawling, while Aberdeen had become the centre of a large export trade in herrings with the continent. The North of Scotland Bank, which opened a branch at Lerwick in 1883 "for the convenience of the fishing trade", announced four years later that the value of herring fisheries to the district was such that "this bank alone receives remittances from the continent yearly for upwards of one-half a million pounds sterling". To a lesser extent the Town and County Bank was taking part in the growth of the trade, and a business connection which the annual report of 1887 could still describe as one that "rested largely on agriculture" was nevertheless closely concerned with the fishing trade. The two banks, which thus added to their vital concern with the products of the land a deep interest in the harvest of the sea, became subject to the fluctuations of fortune which attend primary producers. Unfavourable harvests occurred in five successive years from 1878, and in 1882 the Town and County Bank was complaining



**SCOTTISH BANKS AFFILIATED WITH THE MIDLAND**

**CLYDESDALE BANK BRANCHES MARKED THUS •  
 NORTH OF SCOTLAND BANK BRANCHES MARKED THUS †**

bitterly of the unsatisfactory condition of agriculture and the low prices obtained for produce. More serious were the heavy losses from which the fish curing trade suffered as a result of over-rapid expansion and competition from the continent. For the five years following 1883 the Town and County Bank reduced dividend payments by one per cent (the usual dividend then became  $11\frac{1}{2}$  per cent) because of failures among its limited connection in the fishing trade. Fortunately, the capital and reserve fund remained unimpaired, and there was a steady increase in the deposit figures to an amount approximating £2¼ millions. A more striking reflection of the gravity of the position is seen in the results of the North of Scotland Bank, which was much more heavily involved. To meet losses in the disorganized fishing trade £100,000 was transferred from the reserve fund in 1887 and a like amount in the following year, while dividend payments were halved, remaining at  $6\frac{1}{2}$  per cent for seven years after 1887. The two years which immediately succeeded the temporary collapse of the herring curing trade saw a small decline in deposits to a little below £3 millions, while the note circulation fell by £50,000. Although the whole of the reserve fund was lost, the capital of £400,000 was not disturbed, and within four years a start had been made upon the task of building up a new reserve fund.

The trade quickly recovered from these setbacks, and the banks shared in its restored vitality. They continued their policy of seeking new business by intensive branch development, and, as with the Clydesdale Bank, the map on page 401 shows how strictly they kept to their prescribed field of operations. As between themselves, however, the difficulty of avoiding conflict was becoming yearly more acute, and the number of towns at which both banks were represented steadily increased. By 1907 the North of Scotland and the Town and County Bank possessed seventy-nine and seventy branches respectively, and of these thirty-one overlapped. The numbers exclude Aberdeen city branches, which now numbered six for the North of Scotland and seven for the Town and County Bank. The improvement of transport, the increasing wealth of the nineteenth century and the patronage of royalty had conferred upon the wild highlands a new economic utility in the pleasures afforded to numbers of tourists who now journeyed northward in search of recreation and sport. Nevertheless, it was clear that opportunities for the widening of business



were restricted unless areas served by other banks were to be entered—a development which circumstances were forcing upon most institutions. Thus the fact that the Clydesdale Bank established a branch in Aberdeen in 1903 revealed the direction of the only remaining avenue for extension of business. Then, too, the opening of offices by the North of Scotland Bank, after 1900, at Edinburgh, Falkirk, Kilmarnock and Dumfries showed again that such growth as could take place was almost solely at the expense of competing institutions.

The position inevitably suggested amalgamation. Already the process of integration had served, as with the Clydesdale Bank, to increase the size of Scottish banks during the second half of the nineteenth century. The nineteen separate banks granted authorized note issues in 1845 had been reduced to eleven by 1868; the City of Glasgow failure brought the number down to ten; and in 1906 the Caledonian Bank passed from the list by amalgamation. It is probable that tentative steps had already been taken for fusion between the two Aberdeen banks. In 1907, however, on the death of the general manager of the Town and County Bank, the overtures of the North of Scotland were welcomed. An agreement was soon reached,<sup>(1)</sup> and the two banks which for over seventy years had competed on common ground united under the title North of Scotland and Town and County Bank as from January 31, 1908. Eight separate banks thus remained, but the policy of branch extension had been so thoroughly exploited that in 1908 there were over 1,200 bank offices in Scotland, a total giving one for every 3,700 of the population. The corresponding figure for England and Wales was one bank office for every 5,600 people.<sup>(2)</sup> It will be seen that the 1845 legislation had accorded to the existing banks a position of great strength. The note provisions enforced a condition of exceptional liquidity, for notes circulated in excess of the authorized fiduciary issue were required to be covered by an equal reserve of cash. How closely the note issue was regulated to local requirements is indicated by the periodic

<sup>(1)</sup> The terms were: one share of the Town and County Bank (of £25, with £7 paid up) for one-and-three-quarters shares of the united banks (of £20, with £4 paid up), these latter to rank with the North of Scotland Bank shares of the same denomination.

<sup>(2)</sup> The number of banking offices in England and Wales, though still behind the proportion for Scotland, was increasing much more rapidly. Thus in 1872, while there were 812 banking offices open in Scotland, or one for every 4,100 of the population, in England and Wales there were 1,779, which gave only one for every 12,800 inhabitants. By 1908 the facilities for banking in the two countries were somewhat nearer equality.—*Bankers' Magazine*, 1909, page 158.

drain of gold from the Bank of England to Scotland to provide for extended note issues at times of rent payments and annual settlement dates. Palgrave showed<sup>(1)</sup>—an unexpected result—that after 1845 there developed a regular tendency for the English Bank rate to rise in May, when Scottish note issues were at their peak. Right down to the outbreak of war bullion passed from London to Scotland and back again in accordance with seasonal requirements, and only since that time has it been customary to hold reserves in London—now taking the form of Bank of England notes—against excess issues of the Scottish banks. Thus, although London has from very early times acted as the ultimate source of gold and emergency funds for Scottish banks, its position as custodian of note reserves is only twenty years old.

Apart from this outstanding antiquity of banking practice, the Scottish banks had become, by the end of the nineteenth century, part and parcel of the monetary system operating with London as its centre. Although Scotland thus failed to develop a central reserve system of her own, the separate joint stock banks were in closer consultation than in England. As early as 1839 the Glasgow banks made arrangements whereby interest rates were fixed by general agreement,<sup>(2)</sup> and the Act of 1845, by granting a multi-lateral monopoly, strengthened the tendency towards joint action. Continuous contact was maintained by meetings of general managers, and several matters of common interest were made subject to discussion and effective agreements. Nevertheless, the banks retained their own special characteristics in respect of both structure and methods. Reference has been made to dissimilarities between the policy of the Clydesdale Bank, in the central lowlands, and that of the North of Scotland and Town and County Bank, operating in the highlands and along the north-east coast. The Clydesdale, largely an industrial bank, always found ready employment for available funds. The northern banks were more closely allied to agriculture, and naturally recorded less rapid growth. A reflection of these differences is to be seen in the types of men appointed to the boards of directors. Of the sixty and more directors of the Clydesdale between 1838 and 1920

<sup>(1)</sup> Select Committee of 1875, and paper read before Manchester Statistical Society, March 14, 1877, reprinted in *Bankers' Magazine*, 1878.

<sup>(2)</sup> In Edinburgh also rates of interest were subject to inter-bank agreement. Evidence of Alexander Blair before Select Committee on Banks of Issue, 1841 (Second Report).

nearly all were prominent industrialists. The list includes twenty-one merchants, thirteen manufacturers, five shipowners and five coal-and-iron-masters, found side by side with engineers, distillers, publishers, stationers and stockbrokers. Among them are to be found names like those of James Lumsden, founder of the bank; John Mitchell, pioneer in the Portuguese trade, for whom the first foreign-going ship to be built in Glasgow was constructed; John Blackie, founder of the publishing house; James Watson, first stock exchange broker in the city; and Andrew Bonar Law, later Prime Minister of Great Britain. On the directorates of the northern banks, by contrast, the professions have predominated; advocates, "writers", professors and accountants are most strongly in evidence in the list, though a sprinkling of commercial representation can be found. There also are distinguished names like those of Sir Alexander Anderson, and Sir Alexander Ogston, the world-famous surgeon. The difference is striking, yet the boards of all three banks have had two features in common. First, the directors of each have been drawn almost exclusively from the city or county of its head office; even the Clydesdale Bank delayed until 1879 the appointment of its first director whose business connection was not in Glasgow. And secondly, all three boards have contained numerous links with local and national railway development.

The incorporation of the Scottish banks with the English in a single monetary system was much more than a financial process; it went hand in hand with economic consolidation. The general integration of industrial firms, particularly in the heavy industries, which did so much to break down the boundaries between England and Scotland, inevitably drew the banking systems of the two countries closer together. Indeed, the surprising fact is, not that this cohesion took place, but that it took so long to issue in closer banking associations. Undoubtedly the long banking traditions of Scotland gave to the separate institutions an individual strength and solidity of which they were justly proud, and the long-standing agreements between the banks regarding terms of business may have tended to hold back the process of coalescence within the country. Meanwhile, in the later decades of the nineteenth and the earlier of the twentieth centuries, the English banks were rapidly achieving much closer concentration, leading to the emergence of large and powerful institutions. The movement

gathered force until it was natural that the leading English banks should take the first steps towards greater unity throughout the United Kingdom—hence in 1917 the Midland's acquisition of the Belfast Bank. As regards Scotland, it seems that efforts by the Midland to unite with the Clydesdale Bank had preceded the Belfast transaction, but the plan did not mature when first proposed, and for the time being the London bank contented itself with obtaining premises in Glasgow in 1916 with a view to opening a branch. Nevertheless, the process of cohesion was not long delayed. The Midland Bank carried through an affiliation with the Clydesdale Bank in 1920,<sup>(1)</sup> and four years afterwards further extension was undertaken by acquiring the capital of the North of Scotland Bank,<sup>(2)</sup> whose name had been shortened, like that of the Midland, some months previously. By these affiliations the Midland strengthened its many bonds with Scotland, acquiring a business connection stretching from Gretna Green to Lerwick, firmly established on a record of sound and progressive banking, and enjoying wide diversity of industrial and trading interests.

The close association thus accomplished between English and Scottish banks—as between those of England and Northern Ireland—would be quite erroneously described as fusions, even though the central undertaking of the system holds all the capital of the associated banks. All three of them have preserved their names, their note issues and their own boards of directors, and general day-to-day business is undertaken just as before; indeed, they exercise complete autonomy of administration. Nevertheless, the advantages of association are real and mutual. The “affiliation”, as distinct from the “amalgamation”, is thus not the least of the inventions of Sir Edward Holden, and shows an elasticity of mind unsuspected in his early negotiations outside the borders of England and Wales.

<sup>(1)</sup> The terms were: five Midland shares (of £2 10s., fully paid) for one Clydesdale Bank share (of £50, with £10 paid up), a valuation of £42 10s. per share of the Clydesdale Bank.

<sup>(2)</sup> The terms were: eleven Midland shares (of £2 10s., fully paid) for four North of Scotland Bank shares (of £20, with £4 paid up), a valuation of £24 15s. per share of the North of Scotland Bank.

## APPENDIX TO CHAPTER XIII

## EXTRACTS FROM BALANCE SHEETS OF AFFILIATED BANKS

		(£000 omitted)					
		Capital paid up	Reserve fund	Notes in circulation	Deposits	Advances	Bills
<b>CLYDESDALE BANK</b>							
1840	...	396	30	85	496	69	789
1850	...	796	129	129	1,151	649	1,317
1860	...	807	148	462	3,708	945	2,715
1870	...	900	275	484	5,293	1,338	4,129
1880	...	1,000	500	557	7,204	2,386	3,745
1890	...	1,000	450	742	8,642	2,398	3,368
1900	...	1,000	580	989	12,311	3,589	3,144
1910	...	1,000	950	773	12,590	5,025	2,469
1920	...	1,000	1,200	3,713	38,341	17,176	4,448
1930	...	1,300	1,600	2,659	30,230	14,726	3,270
<b>NORTH OF SCOTLAND BANK</b>							
1840	...	250	35	182	395	285	463
1850	...	383	110	151	911	1,056	309
1860	...	200	72	183	1,529	1,002	400
1870	...	320	53	276	1,862	1,275	467
1880	...	395	203	367	2,739	1,725	1,051
1890	...	400	10	356	3,180	2,134	674
1900	...	400	135	497	3,960	2,455	548
1910	...	652	388	749	7,034	5,043	864
1920	...	652	652	2,644	23,359	8,372	314
1930	...	1,141	1,165	2,167	20,682	11,169	335
<b>ABERDEEN TOWN AND COUNTY BANK</b>							
1860	...	131	25	139	1,107	1,019	
1870	...	182	25	153	1,448	1,329	
1880	...	252	126	196	1,913	901	377
1890	...	252	126	221	2,253	989	304
1900	...	252	146	305	2,834	1,476	436

## THOMAS LEYLAND

1752-1827

THE term "merchant banker" is in these days applied solely to members of a few firms undertaking not very clearly defined functions in the London money market. To this group Thomas Leyland never belonged; yet he fitted the description more closely than they, for there could be no doubt of his qualifications for both constituents of the title. His story presents, moreover, strong claims to the romance the term implies; he was, in the popular term, a self-made man, rising from humble ancestry to a position of great wealth and public prominence.

Leyland spent nearly the whole of his life in the neighbourhood of Liverpool, but his origin is as difficult to determine as that of the name of his city of adoption. Little is known of his parentage, and even the place of his birth cannot be stated with precision. He is thought to have been born in Yorkshire in 1752, his parents being in lowly circumstances, though of some education. Possibly the family was representative of the sturdy master craftsmen of the West Riding, whose industry and skill were to become famous throughout the world. At any rate, Leyland seems to have inherited to a marked degree the initiative and independence that are commonly associated with that neighbourhood. It is believed that at an early age he journeyed to Liverpool, attracted by the rapidly rising prosperity of the seaport. From his first employment in a small shop on the outskirts he moved into the town, obtaining the position of clerk in an office. At the age of 20 he entered into partnership with one Gerald Dillon as a merchant in the Irish trade. In order to make this early start in the commercial world he borrowed a capital of £500 from three friends, and some measure of the success of his venture is given by the fact that one-half of the loans was repaid two years later.

The condition of Liverpool at this time was one of rapidly expanding prosperity. The colonization of America had provided increasing opportunities for distant trading, while the bonds of economic interest between Britain and Ireland promoted the development of short sea traffic. For many years Bristol and

London had enjoyed a position of predominance in overseas trading business, but early in the eighteenth century Bristol was complaining of competition from Liverpool in the West Indian sugar and rum trade, while London suffered a heavy setback through the disaster of the South Sea Bubble in 1720. Along with other ports, moreover, Liverpool was participating in the privateering which grew out of the European wars.

To Liverpool had fallen, too, a large share of the "African trade", in these days of such repugnant appearance, which dealt in human beings as well as the products of human toil. At the beginning of the eighteenth century Liverpool's participation in the business was negligible, but later, as the rights of monopoly were diminished, it grew rapidly. There was, moreover, a substantial demand for African slaves in England, so that by 1764, it is said, upwards of 20,000 slaves were owned in London alone,<sup>(1)</sup> while trading was openly and respectably transacted in the market places. Prices fluctuated between about £25 and £50, and bargains were advertised in the news sheets of the day. By this time over one-half of the African trade was in the hands of Liverpool merchants. The trade received a check when, in 1772, slavery was abolished in the British Isles, and again when shortly afterwards the American market was disturbed by the War of Independence. With the restoration of peace, however, a vast expansion took place. Thus Leyland was born into great opportunities for enrichment, which his native capacities were not slow to seize. Moreover, by the time of his arrival on the scene Liverpool had surpassed Bristol and was challenging London in the importance of its overseas trade.

Leyland's early business activities were confined to the nearer trades, which required relatively small capital resources. The firm of Dillon and Leyland dealt in homely products such as wheat, oats and oatmeal, peas and bacon from across the Irish Channel. The year 1776 is an outstanding date in history—American independence, the "Wealth of Nations", and Gibbon's "Decline and Fall" were allotted to its portion. But to Dillon and Leyland it was notable for another reason; in that year they jointly subscribed to one of the Government lottery loans which marked the reign of George III, and, by virtue of an investment perhaps not exceeding £20 and yielding an interest return of about

<sup>(1)</sup> Gomer Williams: *Liverpool Privateers* (1897), where an estimate from the *Gentleman's Magazine* is quoted.

two-and-a-half per cent, a prize of £20,000-worth of stock was cast into their lap by the capricious hands of fortune. Leyland promptly married the daughter of his former employer, while the firm thrived on its augmented capital.

In Thomas Leyland is to be found an example of the man whose energies know no bounds. Thus in 1779 the firm took a two-sixteenths share in a privateering expedition, a voyage of the good ship *Enterprise*. Whether the partners were at one in this new development of the business is not known, but a suggestion of disagreement is given by the fact that in 1781 the partnership was dissolved, and Leyland, now a member of the Chamber of Commerce, started on his own account, becoming involved in business with more distant ports of Spain and Peru, and entering the lucrative African trade. Prosperity had evidently brought him ample capital, which a publicly alleged meanness may have helped to retain.

A softer side of his character makes its appearance at the time of his entry into the slave trade. Leyland's sister Margaret had married a Liverpool pottery merchant, who failed in 1778. The son of the marriage, Richard Bullin, was taken into partnership with Leyland and Thomas Molyneux in the African branch of the business. Later the same Richard Bullin is found as a partner in another field, and there is repeated evidence of Leyland's tendency to deal well with members of his family, even though connected only indirectly by marriage.

At this point it is instructive to inquire into the nature of the slave trade, without entering into the controversy whether it was phenomenally lucrative or only ordinarily profitable for the time. The evidence is that Leyland at least did well out of it. The practice was for the shipowners to fit out and man the vessel and supply a cargo of cloth, beads, muskets and other miscellaneous products to be exchanged for slaves on the west coast of Africa. The first part of the triangular journey occupied normally about six weeks. The human cargo having been stowed away below decks, often in foul and overcrowded conditions which many failed to survive, the ship would proceed on the eight-weeks' voyage to the West Indies, with a roving commission to sell in the best markets. The business interests of the firm were furthered by according to the master a share in the proceeds of the sales. The profits were also safeguarded by granting a further, smaller share



to the ship's doctor, based upon his degree of success in keeping down the death-rate among the cargo. The slaves having been sold, a cargo of tobacco, sugar or other American products would be taken on board for the final stage of the journey, which lasted perhaps ten weeks, the whole enterprise requiring approximately a year. Usually the ships sailed in pairs so that privateering might be added to the business of the voyage.

Many records of slave-trading voyages by Leyland's ships are still in existence; they are embodied in beautifully written books containing, besides instructions to the captain of the ship and details of the trading cargo, full particulars of the purchase and sale of slaves during the voyage. Of such interest are these records that extracts from a typical volume are given at the end of this essay.

In the knowledge of Leyland's heavy participation in the African trade, it is amazing that his next venture, in 1802, should have brought him into partnership with one of the most prominent anti-slavery agitators of Liverpool, and indeed of England. But there were good business reasons on both sides for the combination. The banking firm of Clarkes and Roscoe was the oldest recorded bank in Liverpool, having been founded in 1774, but now it had fallen on lean days; Leyland was by this time a leading citizen and one of the wealthiest men of Liverpool. What more convenient, then, than that Leyland's desire to share in the profits of banking should be utilized to strengthen the foundations of one of the principal firms in that branch of business. Leyland's association, however, lasted only a few years; at the end of 1806 he withdrew, and began business in banking on his own account.

One can do no more than speculate as to the causes of the retirement. In the first place, Leyland had served his apprenticeship, and must have learned all he needed to know about the rudimentary banking then carried on; a new land had been conquered, and now was the time to secure the tribute. Secondly, the tension<sup>(1)</sup> between slave and anti-slave opinion had probably increased beyond bearing. William Roscoe, lawyer, reluctant banker, poet, natural recluse and courageous humanitarian, had become more and more active in the campaign against slavery, and in 1806 had even been elected to Parliament as a representative

<sup>(1)</sup> The tension is realistically depicted in Margaret Sheridan's play, "City of Ships", which is largely based on the relations, actual and supposed, between Leyland and Roscoe.

of Liverpool, the centre of the slave trade. Quite apart from personal strain, it was probably clear to Leyland that the days of the trade were numbered. Actually, Wilberforce's first bill for the abolition of the trade had been carried by the Commons, though rejected by the Lords, in 1804, and it was only three years later that slave-trading by British ships was declared illegal. The wisdom of Leyland's diversion of capital, talent and energy thus becomes apparent. Finally, it has been suggested that Leyland even at this early stage had perceived inherent weaknesses in the firm, which culminated in its downfall, involving Roscoe himself in bankruptcy, in 1816.

From New Year's day 1807 Thomas Leyland may be regarded as banker first and foremost.<sup>(1)</sup> Here it is not necessary to trace the progress of his firm, for that has been outlined elsewhere. At the beginning Leyland took into partnership his nephew Richard Bullin, while shortly afterwards Christopher, brother of Richard, was brought in. Hence the title Leyland and Bullins, which survived with honour for nearly a century until the forces of concentration drew the business into the fold of an expanding joint stock bank. Leyland's deep sensitiveness in matters of family ties reached out, however, through the name of Bullin to the Naylor, connected in 1809 by marriage between a member of that family, distinguished for its public services, with a niece of Thomas Leyland. Later the firm consisted almost entirely of Bullins and Naylor, though some of them, under the terms of the founder's will, assumed the name of Leyland.

Whether merchandise or credit more favoured Thomas Leyland is impossible to say. Certain it is that he died, in 1827, a rich man. Beginning with very little, he amassed in his fifty-odd years of active business a fortune probably of about three-quarters of a million pounds. In a volume, extremely well preserved for its age and written in an admirable hand, are Leyland's private accounts for the period nearest his death. Periodical balance sheets are included, showing a meticulous degree of accuracy, and one of them, dated shortly before he died, is worth reproducing here, for it gives some idea of the catholicity of his interests:—

<sup>(1)</sup> John Hughes: *Liverpool Banks and Bankers* contains some particulars of Leyland's banking career. See also chapter V.

## THOMAS LEYLAND'S BALANCE SHEET

taken from his Books, 31st December, 1826

DR.	£	s.	d.	CR.	£	s.	d.
To Botanical Gardens	25	4	0	By Stock Account	736,484	2	2
Union News Room	54	12	0	Manchester &			
Reduced 3½ per cent				Liverpool			
Annuities ...	89,845	0	0	Rail Road†	47	7	6
Exchange Buildings	66	19	8				
Corporation Bonds	520	0	0				
William Appleton	3,000	0	0½				
Walton Hall* ...	98,189	13	4½				
Wright's House in							
Fazakerley ...	8,098	14	2				
George Case ...	2,000	0	0				
Consols 3% An-							
nuities ...	193,748	10	10				
Rentes French 5							
p. cent ...	147,063	12	10				
Spanish Bonds ...	992	11	0				
New 4 p. Cents ...	100,781	0	9				
James Shuttle-							
worth ...	16,500	0	0				
Leyland and Bul-							
lins ...	67,032	15	2				
Salt Company ...	5	0	0				
Fazakerley Hall*	8,607	15	10				
	<u>£736,531</u>	<u>9</u>	<u>8</u>		<u>£736,531</u>	<u>9</u>	<u>8</u>

\* The houses of Leyland and of Christopher Bullin respectively.

† Thus Leyland was an original subscriber to the first passenger-carrying steam locomotive railway in the world.

So much for Leyland's business achievements; he had established a firm to be held in honour and esteem for many a long and difficult year; he had built up a large fortune; he had made a reputation for honesty and probity that was second to none among the merchants of Liverpool. But this is not all. Like most men of his standing, Leyland was called upon to render public service. His first recorded contact with local affairs was his appointment, in 1793, as one of a committee to examine means of restoring confidence in Liverpool after the shock sustained from the French

revolution. Three years later he was co-opted to the town council and elected bailiff, at a time when Liverpool, deprived of private bankers, had been forced to issue corporation notes. Then, in 1798, at the height of his prosperity as a merchant, he was elected mayor, and, incidentally, contributed a handsome £300 to the Tory fund in support of the Government's vigorous prosecution of war with France. The war with France, indeed, was in some ways a lucrative business proposition, for Liverpool, probably including its mayor, derived considerable profit from privateering activities.

For many years Thomas Leyland maintained intimate association with the affairs of the town, but in 1814 some reluctance was disclosed to yield to the calls for more single devotion. In that year the choice of the city fathers fell once more on Leyland to fill the mayoral chair. Leyland made known his unwillingness to serve, but was duly elected, only to refuse, to the point of legal proceedings, to fulfil the duties of his office. His predecessor was thus left in the unenviable position of acting as substitute during the interregnum. The London *Morning Chronicle* for November 8, 1814, contains a report of an application in the Court of King's Bench, under the formidable title "The King v. Leyland", for "a Rule to show cause why a Writ of *Mandamus* should not issue, directed to a gentleman of the name of Leyland, commanding him to take upon himself the office of Mayor of the Borough of Liverpool". Surely few men can have enjoyed the rare, and not unmixed, experience of compulsion in the receipt of high municipal honour. Once was enough, for in 1820 Leyland was again elected mayor, apparently without serious protest.

In the light of this story the fact is readily explained that Leyland never sat in Parliament, as did so many of his kind and distinction. The gap in his experience, however, was not the result of any lack of recognition on the part of his co-burgesses. In 1817 Canning, with twenty years of Parliamentary experience to his credit and the prestige derived from ministerial rank, was required to seek re-election for his seat at Liverpool on his re-appointment to the cabinet. The Whigs sought a candidate in Leyland, who, repeating his reluctance to go further in public service, declined to stand. Nevertheless he was nominated, and, without raising a finger, received more than half as many votes as were accorded to Canning—a tribute to the standing among the citizens of Liverpool of the man whom the victor himself described as "an invisible phantom".

The wits of Leyland's place and day attributed his backwardness on these occasions to meanness, but on the whole it seems to have been due more probably to recognition of the limits of human powers. Certainly there is no evidence that Leyland shirked the duties of a position once accepted. An indirect testimony to this fact is supplied by the presentation to him of plate, valued at £500, by Liverpool merchants in 1816, after, be it noted, his second and enforced mayoralty. During that same period of office, moreover, he took a step which marked him out as a pioneer in municipal affairs. He held very strongly the view that burgesses were entitled to accurate knowledge of their corporation's finances, and accordingly not only inaugurated the publication of the town's accounts, but published in addition the accounts for the seventeen preceding years.

The presentation of plate, however, is perhaps to be associated more directly with Leyland's active defence of the consumer in the period of inflation arising from the Napoleonic wars. In those days "profiteers" were more carefully sub-divided than in modern times of loose catch-words. "Engrossers", "forestallers" and "regraters" all had their special places in the galaxy of greed. Against all three Leyland, particularly in his second term as mayor, waged war not only from the magisterial bench but from the market places too, acting as detective as well as judge. The consumer in Liverpool was well served, in this dual capacity, by his leading citizen.

\* \* \*

In King Street, Liverpool there stands today an old building, blackened with age and the smoke of steamers, whose story runs back for more than a hundred years. Around it, where formerly hummed the business of a thriving port, are warehouses and ship's chandlers' shops—the centre of business has moved north-westward. Within easy reach are the customs house and the docks. On the door, as a sign of adopted modernity, are the words "Midland Bank Limited", but inside are the desks and stools of a counting house, rather than the fittings of a modern bank. The ancient safes, one of them operated, well-like, by an old fashioned pump-handle, another protected by an iron door filled with sand, still stand as a tribute to the ingenuity of the locksmith and safe-maker of a hundred years ago. The manager's parlour is a relic of olden times, with its handsome mahogany

table, horse-hair couch and wooden gun-case, its portraits of Leyland and the Bullins, and its model of a three-masted schooner. As one stands on the pavement on the other side of the street it is not difficult to conjure a vision of old Thomas Leyland setting forth from his banking house, with jaw firmly set and brow drawn down in a premonitory scowl, banishing for a time the preoccupations of bills and credits and documents of lading to breathe fire and slaughter against the foul race of "forestallers, engrossers and regraters". The spirit of Thomas Leyland, should it ever have time to leave its permanent abode, must make with all possible speed, as if drawn by irresistible force, for the purlieus of King Street, Liverpool.

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EXTRACTS FROM A SHIP'S BOOK CONCERNING A  
SLAVE TRADING VOYAGE

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The volume begins with instructions from Leyland's firm to Capn. Geo. Bernard, master of the *Earl of Liverpool*, which sailed from the home port on April 5, 1797, "in Company with the Ship Lottery". The following extracts indicate the route followed and business done:—

" Sir

The Ship *Earl of Liverpool* now in this River and ready for sea is hereby put under your command on her intended Voyage to Africa and the West Indies, and you are required to proceed the first opportunity in company with the Ship Lottery, direct for Bonny, either through the North or south channel, as the winds may best favor your course after your departure from this Port. . . . The cargo on board the *Earl of Liverpool* of which you will receive an Invoice herewith is consigned to you for sale and returns, you are to Barter it at Bonny for young healthy Negroes, Ivory, and Palm Oil, and in your selection of the slaves we desire you will not purchase any exceeding eighteen to twenty years of age, well formed, and free from any disorder. . . . We do not wish you to arrive in Jamaica before the end of October that you may escape the Hurricane Season and avoid all the disadvantages

attending the sale of slaves in those months, do not therefore be in too great a hurry in Bonny, propose to the leading Traders very low Barrs<sup>(1)</sup> to begin with, and if they do not comply therewith, seem indifferent as to the length of your stay, nay you may even shew them a disposition to go to New Callabar, and thus you will most likely bring them to moderate terms and avoid the hurry and confusion which always attends the receiving great numbers of Negros on board at the same moment. Your experience in the African Trade will no doubt have shewn you the benefit and satisfaction of treating the slaves with the greatest kindness and indulgence while on board, do not therefore allow any of your Officers or Crew to treat them with that abuse and brutality which we fear is too much the practice on board African ships, give them all the liberty that your own safety and that of the ship will admit, and use every temptation and conciliating method to induce them to feed on dry Provisions as the Yams of that Country will not be in a state of growth and preservation to stand a passage. Insurrections and every other misfortune which can attend your Voyage will be best avoided by strict discipline over your Crew and the greatest humanity to the Slaves. As you may possibly be so fortunate to fall in with and capture some of the Enemy's ships on your passage out you will in that case dispatch your Prize to this Port, under the care of an active Master and a sufficient number of Men out of your own ship and the Lottery to Navigate and protect her, with a Copy of your Commission on board stating the day, Lat: and Long: when and where she was taken. We are far from wishing to lead you into acts of danger or valour, but if you should unfortunately be attacked by any of our Enemy's Cruizers we hope Captain Whittle and you will support each other and make a determined resistance. As soon as you have finished your Trade in Bonny and layd in an abundant supply of Wood, Water, and every description of live stock and Pulse which the place will afford for the middle passage, proceed in Company with the Ship Lottery, direct for Kingston, Jamaica, without calling at any place whatever, and on your arrival apply to Mr. William Dagers, with whom you will find our further directions

<sup>(1)</sup> There is reason to think that this term may refer to a local currency unit used as a standard for what superficially might appear to be straight barter.

respecting the sale of the Cargo. . . . You will receive from the Factor in the West Indies your Coast Comm. of £2 in £102 on the amount of the Gross sales, and when this sum is deducted, and your Chief Mate and surgeons average slaves and head money, you are then to receive £4 in £104 on the remaining amount. Your Chief Mate Mr. Wm. Kewley is to receive two slaves on an average with the Cargo and your surgeon Mr. James Wilson is to receive the same average of two slaves with a gratuity of Twenty pounds, and one shilling sterling as head money on each and every slave which you sell in the West Indies, in consideration of which emoluments you are not to receive any other compensation, except your monthly Wages of £5 per month, or carry on any private Trade. . . ."

The *Earl of Liverpool* carried a cargo of cloth, beads, guns and spirits, invoiced at just over £5,000, and was prepared and stocked for her long voyage at about the same cost. The crew numbered only 35, and to these men, who might at any time be called upon to fight enemy ships in self-defence or in hope of capturing a prize, was paid an average monthly wage of £3 14s. in sums ranging from £1 for the ship's boy to £9 for the carpenter. The master, chief mate and surgeon, however, were in addition rewarded by a share in the proceeds of the venture. According to the records of the voyage, the ship met with no untoward incident, and succeeded in embarking 337 slaves, of which the remarkably small number of 13 died on the voyage to the West Indies. The rest were sold at prices ranging from £60 to £90, realizing a total of more than £25,000. Various expenses were incurred, including duty on the slaves, and payments for the "Hire of a Store to sell the cargo in", "Advertising and Hand Bills" and the services of an "Officer for Measuring Slaves". These, however, made up a comparatively small total, and, although a complete accounting cannot be compiled, the profitableness of the year's trading is apparent.



## CHARLES GEACH

1808-1854

THE name MacGeachie is still heard in Scotland, though the Geaches, close relations, are scarce in England, the country of their adoption. It seems that three or four centuries ago a family of MacGeachies emigrated to Cornwall—an adventurous undertaking, far more so than a removal to Canada in these days. The Celtic affinity may have proved attractive, though the reason for the uprooting is hidden in the dust of men long dead. In any event, the ancestral prefix and suffix were dropped, and about the middle of the seventeenth century a John Geach is found owning considerable property in land near St. Austell. Four generations later came Charles, born in 1808, probably the sixth child in a family of eight. There could have been but little of the Scots left in his blood after the passage of about two hundred years; moreover, a French Huguenot strain had been introduced through his mother, Grace Gichard, one of a neighbouring family of landowners in Cornwall for more than three centuries.

This combination of Geach and Gichard is interesting for a more important reason than alliteration. Charles's uncle Gichard was at one time mayor of Penryn; a Mr. Freshfield, solicitor to the Bank of England, was Member of Parliament for the town. When, therefore, Charles reached working age, in the unfortunate position of the sixth child, it was not difficult to secure his election to a clerkship in the Bank of England. Here he began his labours, in 1826, at the salary, surprisingly liberal for a youth of 18, of £150 per annum. It would seem, then, that his entry upon a banking career was an accident of marriage and politics, possibly quite unconnected with any outstanding bent or ability.

Had Charles Geach been an ordinarily contented person he might have followed a placid career of nonentity, divided between an eminent London bank and a respectable London suburb. The Midland Bank owes its foundation primarily to a bank clerk's discontent. Geach was transferred in 1828 to the new branch of the Bank of England at Birmingham. Here he remained for some years, becoming dissatisfied, according to the *Bankers'*

*Magazine*,<sup>(1)</sup> "with the slow course of promotion and . . . especially . . . with that policy of the Bank directors which shut out from those of their servants who entered in the subordinate departments all prospect of rising to situations of the highest trust".

Geach was not slow to impress his capacities on the minds of leading business men in Birmingham; nor was he deterred by the claims of his career from finding time to marry the sixteen-year-old daughter of a schoolmaster at Handsworth in whose house he had taken lodgings. In 1836 he was instrumental—whether with the full knowledge and consent of his employers must be considered highly doubtful—in bringing about the formation of a new joint stock bank. The men of business, however, who had supported the scheme financially combined unkindness with unwisdom, left Geach figuratively on the doorstep, and appointed someone else to the managership. At once a second group of business men, with great confidence in Geach's abilities and personal popularity, formed the Birmingham and Midland Bank, which opened for business within seven weeks of its rival. Charles Geach, at the age of 28, resigned his position in the Bank of England to become the first manager of this puny provincial institution, faced with the keenest competition.

Some of the letters, still in existence, which passed between the Bank of England and the Birmingham and Midland, disputing various points in the arrangements between them, are indicative of the soundness of Geach's training and the profitable use to which he put it. His solid judgment, combined with personal charm and power to inspire confidence, were instrumental in carrying the bank along a road of steady progress, despite alarms and disturbances of various kinds. Even riots and physical risk were not absent, for in 1839, it is recorded, he mounted his staff upon the roof of the bank, armed with stones and bricks to repel a Chartist mob, and rode his horse through a shower of missiles to secure assistance from the barracks.

By this time he had become prominent in public affairs in Birmingham, then a stronghold of free trade and Liberalism. He organized Birmingham's part in the anti-Corn Law agitation, and later entertained Kossuth, the Hungarian patriot, who was welcomed with great enthusiasm to this hot-bed of radicalism. In 1840 he entered the town council, was elected alderman, and

<sup>(1)</sup> December 1854.

served as mayor in 1847. For the first fifteen years of the bank's life Geach was its active guide and manager, but during that time his sphere of interest had broadened considerably. It was not a mere accident that the bank was founded about the time when railways came to Birmingham, and the great expansion of the demand for iron presented an opportunity to the midlands that Geach was not slow to seize. He bought and managed large interests in iron undertakings, and amassed a fortune out of these ventures, aided perhaps by his substantial shareholdings and directorships in a number of new railway companies. He thus secured a double share in the profits of the period of great railway enterprise. Not confining his activities to this country, he became interested in continental undertakings besides such British projects as the erection of the Crystal Palace.

In 1851 came the choice between dealing in iron or in credit. Geach had taken a step forward in public life, becoming one of the two Members of Parliament for the neighbouring Borough of Coventry, and, human strength being inadequate to support all his activities, he made the decision in favour of the more profitable commodity—how profitable it was is indicated by the fact that his special foundation, the Patent Shaft and Axle Tree Company, consisted in 1844 of one small forge and ten furnaces, whereas ten years later it comprised four forges, four mills, twelve hammers and a hundred furnaces, employing in all 800 men. Following his retirement from active control of the bank, amid expressions of gratitude conveyed in the customary "costly service of plate" and the painting of his portrait for the board-room, he continued, as managing director, to give his successors the benefit of his experience and judgment in matters of policy. It is worthy of record that he refused the advance in salary offered in conjunction with his new post, upon the grounds that the increase in remuneration should be granted to his successor, and the bank should not be called upon to bear a double expense. The adjusted relationship was maintained until his early death in 1854.

Geach's political career was short and, as far as can be gathered, comparatively undistinguished. It was the outcome of a party squabble. Coventry's political colour was similar to Birmingham's, but in 1851 the party organization was torn with strife. A colleague was sought for Mr. Edward Ellice, already sitting for this two-Member borough, and the local branch of the "National

Parliamentary and Financial Reform Association" was dissatisfied with the answers of the candidate, the Right Honourable E. Strutt, to its catechism on such matters as the ballot, household suffrage and financial reform. Accordingly they invited Geach to contest the seat. There was no conservative candidate, and gentlemen of this persuasion, according to a local historian,<sup>(1)</sup> "with their usual antipathy to the Whigs, went for the more Radical candidate", as a result of which he was elected. Political apathy is no new thing—more than one-third of the voters failed to visit the polls. The new representative for Coventry was unknown to his constituents only forty-eight hours before he rode its streets in triumph. In the following year came a dissolution, and Ellice and Geach were returned unopposed despite allegations of popery, levelled against the junior Member, and the tentative incursion of a prospective third candidate, by a coincidence the deputy governor of the Bank of England.

Geach seems to have made no deep impression on the House during his brief stay there. He allied himself with Cobden and Bright, in the company of whom only the most eloquent tongue, along with striking personality, could make its presence felt. According to one who knew him, "he was not a fluent speaker; indeed he was hesitating, and sometimes his sentences were much involved". He addressed the House, it seems, infrequently and always briefly—perhaps a sign of proper valuation of time rather than absence of ideas. One of his best interventions, inspired like so many of the most moving orations by indignation, rebuked a fellow Member for describing the newly-elected Emperor of France, Napoleon III, as an "upstart usurper". Another defended the common rights of the people to wave flags and join in processions at election time—the only means, said Geach, which the unenfranchised had of expressing their political opinions. Naturally, he concentrated his efforts more especially upon those subjects with which he was most familiar. He steadily opposed the imposition of the penny stamp on cheques. On another banking matter, a bill designed to exert greater pressure in the process of enforcing payment of overdue bills of exchange, he drew upon his banking experience to demonstrate by facts and figures "that the credit system of this country was a safe one, that the creditors had ample means already of enforcing their claims,

<sup>(1)</sup> E. Edwards: *Personal Recollections of Birmingham and Birmingham Men* (1877).

and that a measure proposing so sweeping a reform in the law between debtor and creditor ought to have been preceded by a report of a commission specially appointed to investigate the subject". His remarks on the civil servants of his time lacked nothing in directness—"in all government offices", he observed, "there are people holding permanent appointments who are obstructive of anything like improvement". On the whole, it is clear that Geach cannot be hailed as a born parliamentarian, cut off in the early days of what might have been a brilliant career. He was more probably one of that large number of business men who, from accident, pride or motives of public service, enter Parliament for a short and undistinguished career, pursued in spare time and ended, generally speaking, in honourable and welcome retirement quietly achieved.

For Geach the end was different. After but three years in Parliament, when only forty-six years old, he died in London through a combination of physical disorders, partly no doubt a result of the excessive strain of business and public affairs, partly the long-delayed final outcome of an accident—a kick from the horse of a hansom cab in which he was riding. His wife and five children survived him, as did his "affectionate brother and sisters", who erected a tablet to his memory in the parish church of St. Austell. His remains, with those of his wife and other members of the family, lie in London at the Kensal Green Cemetery.

Geach's life was clearly one of great and varied achievement. The obituary notices of the early Victorian era were often verbose—that relating to him in the contemporary *Bankers' Magazine*<sup>(1)</sup> is an excellent specimen of this type of florid literature. Making all allowances, however, the conclusion is inevitable that here was a man of great enterprise and energy and outstanding ability. Physically, he must have been of imposing and attractive presence; over six feet in height, of broad frame, fair complexion, and, as his portrait shows, with an open and friendly face. He is reputed to have had an unusually large head, for which hats had to be specially made—a fact which one writer uses to support his theory "that size of head was indicative of mental power". He had a great reputation for modesty and faithfulness in personal relations—"of his early

<sup>(1)</sup> December 1854.

friendships he was most tenacious"; "always the same plain man of business", "entirely free from the 'airs' which some self-made men put on". His generosity was broad enough to encompass his opponents as well as his friends—an acid test of disinterestedness in giving help and guidance. Summing up, we may write Charles Geach as typical of the finest products of early Victorian enterprise—a man to whom wealth and power came freely but not ruinously; to whom work was the staff of life; and whose gifts were regarded, without ostentation, as bearing with them compelling responsibilities, both public and private. The earlier decades of the nineteenth century were rich in such men, but few accomplished so much in so short a period as this one-time bank clerk of Birmingham.

## GEORGE RAE

1817-1902

**A**MONG those whose names are still honourably preserved in the records of English banking are several examples of men of eminent public service or artistic accomplishment. This is not as surprising as it may seem, for, after all, banking requires for its efficient working a keen, well-balanced judgment ; on the other hand, it demands unusual powers of insight and imagination, so that it is a pre-eminently humanistic occupation. It follows that, in general, the best bankers have had not a little of the artist in their constitutions, and George Rae was just such a man.

Rae was one of those who, with a physique always suspect, are meant to die young but refuse to admit their destiny. He lived for 85 years, in the full enjoyment of all his faculties—no lingering period of semi-life intervened between what had been and was to come. For sixty years his central interest lay in banking generally, and in one well-built and well-conducted bank particularly. Through this absorbing concern he gave ungrudging service to his country at a time when a cool head, sound judgment and well-governed imagination were especially required.

The span of Rae's life brings realization of the rapidity of change in modern history. Born before Napoleon was dead, he witnessed a crowded, swift-moving stage of statesmen, soldiers, diplomats, emperors, kings and presidents, forming and re-forming in a rapidly changing kaleidoscope, and closed his eyes upon the unstable alignment of powers which culminated in the great war. Wellington and Metternich held the stage at the time of his birth ; Theodore Roosevelt and Cecil Rhodes were central figures at his death. He saw the growth of England from the youth of industrial greatness to the prime of economic leadership. He helped, in outstanding measure, the development of banking in England from the profitable side-line of the country shopkeeper and trader to the whole-time business of the joint stock bank official.

To some people it will be sufficient to say that Rae was a Scotsman. Born in Aberdeen, in 1817, he received the Scotsman's thorough education, and knocked at the door of one of the

Scotsman's pre-eminent professions, the law. Whether from lack of inclination or resources, or diminution of health, however, his knocking shortly ceased, and he entered the North of Scotland Bank at its foundation in 1836. By a coincidence this bank, like the one he was later to build up to a foremost position in another area, eventually became an important part of the present-day Midland group.

There is nothing unusual in the picture of a Scotsman entering a Welsh bank, as Rae did, after less than three years with the North of Scotland Bank. What is unusual, and very unusual indeed, is the speed with which he established a commanding position in the bank, and used that position to build up an institution whose form and methods of operation displayed a most uncommon degree of novelty and enterprise. The North and South Wales Bank had been founded, in 1836, upon the principle of a joint stock institution operating a widespread branch system. When Rae appeared upon the scene, as an inspector of branches, in April 1839, it was less than three years old, but already it had thirteen branches, besides its head office in Liverpool, a small note issue and roughly £270,000 of deposits. The bond that tied Rae to the bank must have been slender, for his directors were within a hair's breadth of surrendering his services when he ventured to solicit an advance in salary. Fortunately for them and the bank, his offence was overlooked, and within six years of his entry—when only twenty-eight years of age—he was appointed general manager.

Possibly as a consequence of the special inequity suffered by the Wales Bank<sup>(1)</sup> under Peel's legislation, Rae conceived a detestation of the Act of '44 which outlasted the century and lost no opportunity of expression. Time after time in his writings right on to the 'nineties appear criticisms of the Act which never stood the test of time, but remained in force by sheer accident of circumstance and banking evolution. His early years of prime responsibility included the troubled period surrounding the crisis of 1847, which severely tested the bank. Ten years later strained conditions again called for the highest qualities of prudent management. In 1865, after twenty years of proving, Rae was appointed managing director, and from this date he may be regarded, not only as the bank's executive head, but as the controller of its policy

<sup>(1)</sup> See chapter VI.



as well. At this time the bank's system had extended to cover branches in 20 towns and villages, all in North Wales, Cheshire and the border counties, while its business had grown to the extent that deposits amounted to over £1½ millions. After eight years in office another change was undertaken. Rae was disposed to shed some of his executive duties ; he had trained in his methods and ideas a staff upon which these could safely be allowed to devolve, while the virtues of continuity in control were so patent in their fruits that his appointment to the office of chairman seemed perfectly logical and desirable. In this position he remained for no less than 25 years. Even then, when compelled to resign for reasons of ill-health, his helpful guidance was retained, in the capacity of advisory director, until his death in 1902.

So far has been depicted the life of an extraordinarily able bank builder—how conspicuously able is demonstrated by the progress of his bank, which at the time of his death operated through 95 branches and sub-branches with over £10 millions of deposits. His services to British banking were no less eminent and substantial than to his own institution. He had, for one thing, helped to demonstrate beyond a shadow of doubt the practicability of safe, serviceable and remunerative branch banking. He had evolved an efficient system of branch accounting and control, and begun the application of general principles to the disposition of assets. He had been among the first in this country to perceive the wisdom of courting the small deposit. He had invented and patented a special type of cheque, now known as the "limited" cheque, designed to place an effective obstacle in the way of forgery by alteration of amount.

In broader matters, Rae's hostility to the Act of '44 has already been recorded. His opposition crystallized in later years in an expressed partiality for the then existing Reichsbank system of elastic fiduciary note issue, and he was called upon to give evidence before the 1875 Parliamentary Committee on banks of issue. He was largely instrumental in forming in 1874 the Association of English Country Bankers. Several earlier attempts had been made to associate the country banks in a permanent organization for the defence of their position and rights, and co-operation had been arranged in various forms for specific purposes at different times. Not until this stage, however, was it possible to ensure continuity of effort in association. The new organization

did useful work until the country bank, regarded as a separate entity, all but disappeared from the stage.

Another organization in the earlier career of which Rae was concerned was the Institute of Bankers. For several years, despite some misgivings on his part as to the direction of its development, he was a vice-president and trustee of the Institute, which has since become a body applying a standard of technical education to bank officials. His interest and faith in the spread of knowledge and technical training is further illustrated by his endowment to the University College of North Wales for the provision of lectures on banking topics.

Among the most outstanding of Rae's achievements in moulding the banking system of England was his part in the general adoption of limited liability in banking. Following the failure of the City of Glasgow Bank, in 1878, a bill was introduced in Parliament in highly circumlocutory terms, permitting banks to register with "reserved liability".<sup>(1)</sup> The Irish party, then in a state of adolescent exuberance, put up a stern show of opposition, led by Mr. Shaw. The Chancellor of the Exchequer, Sir Stafford Northcote, was, it seems, gravely perturbed as to the outcome of the dispute, but the Irish leader was won over by a conversation with the Scottish banker trained in Wales, and the opposition in Parliament was removed. At the same time Rae, who was active in lobbying, outpaced the lawyers by expressing in a few words the whole complex of obscure phrases, so that the bill was quickly passed through all its stages perilously near the end of the Parliamentary session. This was undoubtedly one of Rae's greatest achievements, for the result of the bill was to change the constitution of the British banks. For many years Rae was in frequent intercourse with politicians and others, giving his advice and expressing his strong and well-founded views on a wide variety of financial questions.

His originality and aptitude for learning by experience were expressed too in his capacity as an inveterate correspondent. In one of the earliest volumes of the *Bankers' Magazine*<sup>(11)</sup> are to be found articles, signed by "R.A.E.", setting out proposals for a new currency Act. A student of financial thought during the nineteenth century could spend time far less profitably than in tracing his many published contributions to current problems.

<sup>(1)</sup> See page 33.

<sup>(11)</sup> 1847, page 405.

He conducted, moreover, a voluminous private correspondence. Recently a volume has been discovered, hidden among records long undisturbed at the old head office of his bank, containing copies of letters written in his own hand to banking and other friends. A neat label on the front cover discloses the contents: "Mr. Rae's Private Letters on Banking Questions".

The volume contains letters, dated from 1880 to 1896, on a wide variety of subjects, composed in his own clear, warm-hearted and gently jocular style. Several of them are addressed to R. H. Inglis Palgrave, for many years editor of the *Economist*, and a number to R. B. Wade, who guided the destinies of another pioneer institution in joint stock banking, the National Provincial Bank. Some extracts are given below because they show the breadth and ingenuity of Rae the banker's mind and the vividness of Rae the writer's pen. First, a letter to H. F. Billinghamurst, country manager of the London and Westminster Bank, dated November 10, 1880, concerned with a supposed conflict of interest between the central institution and the other banks (the underlinings are Rae's):

"The anomalous state of the money market at present and for some years past has frequently engaged my attention, and I now write to ask whether it would not be the same to your Bank if, say, half a million of your cash reserve, now at your credit with the Bank of England, were lying, in the shape of Bank of England Notes, in your own safe instead?

I ask the question because it has always seemed to me that the London Banks, by placing a large portion of their cash reserve with the Bank of England, only thus fabricate a stick whereby to break their own pates withal.

I may be mistaken in this: but if not, and supposing the London Banks, out of their balances of 10 millions or so with the Bank, were to withdraw, say 3 millions, and lock these notes up in their own safes would not the results be as follows?

1. A reduction in the reserve in the Banking Department (Bank of England) from 15 to 12 millions?
2. A consequent reduction to that extent in the means of the Bank of England to make advances to 'running brokers' and the like.

3. A nearer consequent approach of the outside rate of discount to Bank of England rate, whereby both the Bank itself and the other Banks would gain?

It is unnecessary to add that the Bank notes would bring you in as much revenue in your own safe as if they were at your credit in the Bank of England—that is nil.”

Later he writes of the same plan:—

“If my views are sound, it is at all times in the power of a few of the leading private and joint stock banks in London, acting in concert, to so regulate their balances in the Bank of England, from time to time, as practically to maintain the market rate at Bank level.

But if the effect of the process would be a disadvantage to the Bank, which I can hardly imagine, some other method might be thought of: because in my judgment, it would not be expedient to take any course in the matter without the knowledge and concurrence of the Bank of England.”

An account has already been given of Rae's services in securing a practical form of limited liability for the banks. Here is an extract from a letter to R. B. Wade, then chairman of the National Provincial Bank, dated November 26, 1880—that is before the new limited liability facilities had been generally adopted—in which he sets out a suggestion for removing a supposed defect of the Act of 1879:—

“If the three Chartered Scotch Banks expect the Legislature to grant them the benefits of limited liability<sup>(1)</sup> without the name, I think they will find, and ought to find, themselves mistaken.

It has occurred to me, however, that the occasion might be utilized.

We none of us like the word “limited”, and it is actually misleading. It cautions the public equally against the London and Westminster Bank and the Bank of Middlesex, although the one has a capital of £5 millions and the capital of the other may be only £5 thousand, for there is no minimum to the commencing capital of a Bank formed under the Companies Act 1862.

<sup>(1)</sup> It was claimed that the charters already provided a limit to the liability of shareholders.

Instead of the word " limited " then, let it be enacted next session, that accompanying the name of every Bank shall be an inscription on all its documents, setting forth the amount of liability to which the shareholders are limited [as follows] :—

NORTH AND SOUTH WALES BANK

Liability of Shareholders limited to Two Millions			
of which paid up ... ..	..	...	£ 500,000
Reserve liability ... ..	...	...	1,500,000
			<u>£2,000,000</u>

The caution thus given to the public would be at least equal to that given by the word limited : it would remove the objections of the English unlimited Banks (I think) as well as the Scotch and Irish : and the Chartered Banks of Scotland would find it an easier way out of their difficulty than the one they are taking."

On the recurrent question of a state issue of £1 notes—which, incidentally, did not mature until stress of war enforced it in 1914—Rae's views underwent considerable change. In February 1886 he wrote as follows :—

" The objections to a State issue of £1 notes (and no other, in my judgment, would be tolerated) appear to me to be as follows : 1st. Such an issue wouldn't " pay ", if anything like a sufficient reserve in gold is to be held against it. 2nd. As regards the notes issued against " securities ", they would simply take place of, and eventually send out of the country, an equal amount of gold. 3rd. The basis of gold on which our monetary system rests, is the same as fixed by the Act of 1844, although our Banking liabilities have since increased threefold, and now stand at some 500 millions against 4½ per cent of gold in hand of the Banks, and any further narrowing of this extremely narrow plank would manifestly be fraught with danger. 4th. The issue of £1 notes under existing circumstances, if it had any effect on the rate of interest in the money market, would be to reduce it below even its present level : and 5thly To whatever extent a large issue of £1 notes against securities would arrest the appreciation of gold, it would to an equal extent enlarge the disparity betwixt the superstructure and the base on which paper money rests, which cautious people regard as sufficiently wide already, and ought rather to be diminished than enlarged."

Three years later he repeats "my objections to £1 notes remain what they have always been", but by 1891 he had come to a different opinion:—

"My own view is rather in favour of such an issue, provided it is limited to one pound in paper to every one pound in gold, and that there is no fiduciary issue: but I am open to reason".

In the same letter Rae re-asserts his constant opposition to the Act of 1844. He expresses to Mr. Palgrave the pleasure he finds in the knowledge that his (Palgrave's) views "still incline to a relaxation of the restrictive clauses of the Act of 1844, on the lines of the Bank of Germany". "I find", he says, "that I have been writing to the press from time to time in favour of an 'elastic limit' to the Bank Act, for more than 30 years past". In the following year, however, he recalled that his criticisms had been of even longer standing. He writes, again to Mr. Palgrave, "I have been advocating my sixth point (relaxation of the Act of 1844) in the press and out of it for the last five and forty years".

With all these activities Rae, whether from disinclination or strength of will, never yielded to the temptation himself to engage in political life. The nearest approach to any activity of that kind occurred very early in his career, and concerned local rather than national affairs. In 1849, when Rae was general manager of the bank, he became one of the commissioners of Birkenhead, and under his guidance the finances of the town were rehabilitated,<sup>(1)</sup> paving the way towards incorporation in 1877.

It is perhaps a little ironical that, with all these solid achievements to his credit, Rae is best remembered for the product of his spare time occupation. The fact is explained by his literary gifts and culture, or, perhaps it is truer to say, by the fact that he applied them to his own profession. A reading of his works does not give an impression of such exceptional powers of authorship as it is common to associate with him. Unusually deeply and widely read as he was, and favoured with facility and felicity of expression, yet his works would probably not long have survived had he devoted himself to *belles lettres* or novels or other purely literary works. It was, however, so exceptional for anyone to write on banking as if it were anything more than a carcase to be

<sup>(1)</sup> See page 186.

dissected with chopper and knife, that his writings achieved lasting fame. He is best remembered as the author of *The Country Banker: His Clients, Cares and Work*, which received the honour of multiple "pirating" in America, and as recently as 1930 appeared in its seventh, revised edition. The book was first published in 1885, but its history goes much farther back than that date. It was conceived in a series of letters contributed, under the pseudonym "Thomas Bullion", to the *Bankers' Magazine*. It was born when the letters were brought together in book form, in 1850, as *The Internal Management of a Country Bank*, and emerged into full-grown manhood as *The Country Banker* after 35 years of coming-of-age. The book is worth any bank man's reading, even in these days, for it contains the wisdom of experience, aided by insight, as does no other book that attempts to cover a similar field. Indeed, it can provide a pleasant relaxation for many a reader whose immediate interests are remote from banking. In it he will find much simple sense, so easily submerged in these days of complex working and intricacy of detail; he will find himself warming in sympathy towards the imaginary ogre in the room with the door marked "Manager"; he will smile at many a quip at the rough edges and sharp corners of humanity. Unless he is exceptionally well read, he will find, too, that many of the greatest writers have said things which have close relevance to the conduct of business. Rae heads his chapters with illuminating, guiding quotations from such authors as Shakespeare, Goldsmith, Ben Jonson, Bacon, Seneca, Swift, Cervantes and many others, all of whom contribute to his symposium of worldly wisdom.

This was his greatest, though not his most pretentious literary product. He wrote, near the end of his life, a two-volume account of his travels on the continent and in Egypt, a work of which very few libraries contain a copy. Pamphlets, articles and letters make up the rest of the author's output. Some of these are instructive and propagandist, like the pamphlet on bi-metallism; some are diverting, like the *Tale of a Ten Pound Note* and the *Night with the Circulating Medium*. Perhaps the most amusing of all his works, however, is not available to the public, for it is a little book, prepared by himself, presented to a colleague, and handed down to the late Major Charles E. Breese of Portmadoc. It contains an account of the annual visit to branches of the bank

by directors appointed to the duty in accordance with long-standing custom. The story is related with abounding good humour, and is concerned mainly with an alleged dispute between Rae and his directorial colleague as to whether hospitality should be accepted at his colleague's house or at the "Sportsman". The dispute appears to have ended in the bloody discomfiture of Rae and his forcible removal, the whole incident being illustrated copiously and with considerable skill. Indeed, Rae's self-portraiture almost suggests that with practice and training he might have become even a better artist than author.

As a fact Rae, though not himself an artist, was a generous and faithful patron, bestowing his support upon the pre-Raphaelite school. He was a close friend of Rossetti, some of whose pictures were presented by him to the Tate Gallery. His local patriotism found expression in his support of a number of artists better known in Liverpool than outside its neighbourhood. The portrait of Rae, commissioned by the shareholders of his bank in 1884 and still to be seen at the old head office, was painted by Frank Holl.

One of those curious products of exuberance in recording local distinction, *Liverpool's Legion of Honour* (1893), contains an uncommonly restrained, but highly appreciative, note on George Rae. It ends with the significant words, rounding off all his other virtues and achievements: "Mr. Rae is a Churchman and a Conservative". Whether this fact sealed his greatness is difficult to decide; some would be disposed to weigh more heavily in the balance his solid accomplishments and outstanding worth. Here was a man who built a bank, and a very fine bank too; who played a large part in shaping the banking system in extremely difficult circumstances and under harsh restrictions; who devoted singular gifts to the exposition of his art; and yet found time for the cultivation of higher tastes by reading, study and intercourse. Add to this that Rae was a warm-hearted, conscientious family man, and the impression is complete of fullness of life that few men can have surpassed.

His death is not too long past for first-hand memories to remain. A few of his apprentices are still at work in the bank to which he contributed so much through the sound administration and enterprise of his own institution; others are in retirement; while quite outside his own business field are to be found men and women who knew him as a friend long enough to conceive for him a lasting



affection and respect. The quality that stands out most clearly in the memory of these is kindness. His works are a permanent monument to his other qualities; only the personal recollection can complete the picture. Here is his epitaph—more intimate and revelatory than all his works—engraved in the memory of an old friend :—

“ Even in his old age Mr. Rae remained so young, so fresh, so buoyant, that he had a singular attraction for youth. . . . Indeed, so quick and keen was his sympathy, so wide his knowledge and so apt his power to communicate that the individual is hardly to be found, of whatever age or condition, between whom and Mr. Rae there was not some point of contact. . . . I have spoken simply of a friend, in whom were combined elements of greatness and of charm—true and constant, genial and warm-hearted, ever ready at whatever pains to himself to advise and help, and fertile in ingenious devices for giving pleasure in the most pleasing way.”

## EDWARD HOLDEN

1848-1919

TO depict in detail the character of Edward Holden, or fully to assess his part in the construction of modern English banking, is a task beyond the scope of this work. Within the bank he did so much to build, the name of Holden stood for absolute authority and peculiar force of character. His personal achievement was vast, and time has yet to provide the perspective essential to a just estimate. This much, however, can be said: that, while Holden was in essence a product of his age and circumstances, his own personal qualities enabled him to take full advantage of the times. The vigour of his life and the scope of his operations were alike representative of the mature fruits of industrial advance. In the later decades of the nineteenth century, commerce provided the natural field for men of abounding gifts and energy; business was rapidly growing, and the size of the business unit was advancing with corresponding swiftness. The expression of individual enterprise reached its peak. They were decades when the battle went to the strong, and when the big battalions won the fight only by virtue of superior generalship. In such times Holden lived, and it is just to regard him as a distinctive product of the nineteenth century projecting itself into the twentieth.

Edward Hopkinson Holden passed his boyhood and youth in the village of Summerseat, in Lancashire, the county in which the industrial revolution reached its earliest fruition. In the day-school of that village he received his early education as scholar and pupil teacher, and many of his characteristically lasting friendships had their roots in that neighbourhood. In this formative period, moreover, from 1848 until the early 'sixties, his character was doubtless shaped by observation of the chances of rapid wealth and calamitous misfortune presented in a period of concentrated economic change. Holden had scarcely passed out of boyhood before he was at work, and he appears to have changed his occupation more than once before, at the age of nineteen, a kindly friend obtained for him a post as junior clerk in the Manchester and County Bank. Thus unpretentiously

began a banking career the main achievements of which have been recounted at least inferentially in preceding pages.

Holden's salary for the first three years was £30, £40 and £50, and this last sum seemed to him a munificent income. For seven years he was at the Bolton branch of the Manchester and County Bank, eventually becoming accountant. Thence he was transferred to the head office at Manchester, where for another seven years he laboured at manifold clerical duties. The path of promotion, however, was for Holden unendurably slow, and this must have been all the more disappointing since his fourteen years in banking had been crowded with effort towards self-improvement. Once placed in a regular post, Holden had turned his attention to furthering his education. When the day's work was done at the bank he would go on to night schools and pursue studies evening after evening in law, logic, political economy and the principles of banking. The removal to Manchester increased his opportunities, and he became an ardent student at the evening classes of Owen's College. Doubtless it was the harsh necessity of those years that gave him the insatiable appetite for information and the habit of working until very late hours that persisted throughout his life.

During this industrious period there were few interests in Holden's life outside his banking career. He played no games, followed no sport, and was absent from the usual amusements of his years and circumstances. One subject, and one only, proved sufficiently attractive to divert a part of his attention from banking: this was his affection for a friend of his childhood, now a schoolmistress at Summerseat—Annie, the daughter of William Cassie, formerly of Aberdeen. Early in 1877 they were married, but almost immediately studies were resumed. The devoted wife joined with her young husband in his nightly reading, herself becoming adept at the formulation of logic and enunciation of the principles of political economy. In spite of Holden's prolonged efforts to become both well-informed and technically efficient, his superiors continued to treat him as one of a crowd—and a troublesome one at that. The incidents of those years are now no more than shadowy recollections, but they suggest an energetic and capable bank official, somewhat quick-tempered, but warm-hearted and popular among his colleagues. In appearance he was short and stockily built, and when he entered the

bank his hair was a plentiful shock of flaming red, though much of it had been lost before the first fourteen years of unremitting labour had run to an end. There is little doubt that by this time he was feeling acutely the absence of recognition, and finding the routine duties of his employment more and more irksome. Though he had already borne considerable responsibility, his salary was low; and far worse, there was no sign of larger opportunity while he remained with the Lancashire bank.

His step out of the rut arose solely from his own endeavour—he began to search journals and newspapers for advertisements of positions in banks. The *Economist* early in 1881 contained an announcement of an opening that appeared suitable. It was for a bank accountant in the midlands. His answer, the original of which is still preserved, brought an immediate response from the directors of the Birmingham and Midland Bank, then a small and commonplace undertaking, requesting him to call and see them. His technical experience and intensive reading strongly supported his application, while his personality deeply impressed the directors. Almost immediately he took up his new duties with the bank which within a generation he was to transform into one of the largest and most influential in the world.

Whether Holden, at the time of his entry into the Midland, foresaw the extent of impending changes in English banking structure cannot be said with certainty; it is clear beyond doubt, however, that within a few years he had not only perceived the full implications of the consolidation movement, but had in addition made up his mind as to the course his own bank should follow. By that time his position was such as to ensure that his views received due weight. Two years after joining the bank he had been appointed secretary; four years later, in 1887, he became sub-manager to John Alexander Christie; and in 1891 Christie and Holden were made joint general managers.

Holden's rise to authority found him ready to press forward with unexampled energy a policy of swift amalgamation. This was the practical expression of his interpretation of the needs of the moment, and he was fortunate in possessing a sympathetic chairman in John Dent Goodman, and a helpful senior in J. A. Christie. In 1889 two neighbouring banks at Coventry and Leamington were absorbed; in the next year three banks were taken over—two in Leeds and one in Derby. The year 1891

is of special note in the record of banking consolidation in that it marked the entry of the Midland by way of amalgamation into London; but, almost equally important, by the same act it brought Holden himself to London. Such was the pace set by his forceful personality. Filled with a sense of the overwhelming urgency of the need for spreading the range of the bank throughout the length and breadth of the country, the twin processes of absorption and branch extension were sustained for the next twenty years and more with undiminished vigour. Most of the amalgamations were arranged by Holden personally, and the delicate negotiations were almost entirely in his hands. Thus he grew into a superb master of the difficult art of banking consolidation—he became, that is to say, the prime exponent of the banking development of his time.

The metamorphosis of Holden was rapid and complete. The struggling bank official gave place to a confident leader in the race for first rank among the large banks. His method was precisely similar to that of his student days. He sought neither rest nor amusement, but worked late into the night upon the business of the moment. The price paid for his success was thus entire absorption in the bank, though now it was rewarded by the triumphant progress of his institution. A list of his official titles portrays his oneness with the bank. Upon the retirement of Christie in 1897 he became sole general manager; a year later he was elected managing director; and finally, in 1908, he became chairman and managing director, filling the dual post until his death eleven years later.

Nevertheless, as time went on he was forced to recognize the need for some form of physical recreation. He became an enthusiastic cyclist, buying a new machine in 1900 and thereafter spending week-ends and brief holidays on tour with "pals", mostly from Lancashire. He was then over fifty years of age, and distinctly heavy in build. But even this late adventure into the realm of sport shortly became subject to the ruling passion of his life. After less than ten years the bicycle had been replaced by a motor-car; the tours continued, but now the "pals" were nearly always bank officials and the route included either an inspection of existing branches or a survey of likely places for new ones. Indeed, holidays in the ordinary sense of the word almost completely disappeared from Holden's life. Week-ends

at seaside resorts were often devoted to preliminary approaches towards fresh amalgamations, for there were tentative discussions about many banks that never reached the stage of a definite offer. Occasionally long spells of work would make a break essential, and he would go to Harrogate, to Blackpool or to Scotland for a few days, but never for long. He was always anxious to be back, and as often as not during some part of his "rest" he was joined by officials from the bank or other persons for whose knowledge and opinions he might entertain respect.

Whichever side of his life is touched upon, the same absolute devotion to banking is revealed. For many years he lived during the week in a London hotel in order to be near his desk; he would rarely leave the bank until near to his dinner hour, and would then arrange for consultations during and after dinner. When at last he did go to bed, it was not at once to sleep. As a final diversion he would read the technical articles and periodicals of the day and a chapter of the latest book on currency or banking! It was natural that his unsparing concentration should at times press heavily upon his subordinates. Holden demanded from them the same quality of unremitting service that he himself was prepared to give, forgetting that there were few among them of his capacity and constitution, and many with interests outside the bank. He was, moreover, a fierce disciplinarian, with a strong sense of the complete and immediate authority of the executive. His uncompromising insistence upon the bank as the first and dominating interest in the lives of its employees was to some extent counterbalanced by other components of his character. On occasion he could be impulsively generous, and his warm-hearted assistance made many a bank officer the devoted servant not only of the bank, but also of its chief. Moreover, his enormous capacity for work, his amazing grasp of detail, and his exacting demands upon his own time and strength furnished to his subordinates an inspiration which even now survives.

Apart from long-standing charitable and educational interests—his generous concern in the welfare of "Lancashire lads" in the war will long be remembered—there was only one major excursion from the field of his absorbing passion. Some years after coming to London he joined a London debating society and sat as a Liberal "member" of its mock parliament for at least one winter. In 1900 he turned to sober reality and contested the Heywood division

of Lancashire in the Liberal interest, but, as his opponent was at the South African war, Holden felt that he, too, should not hold meetings or canvass, and the absent member was returned. Six years later, in the great Liberal " landslide ", he was successful in the same constituency, and took his seat in the House of Commons.

Almost immediately Holden felt the difficulties of his position—difficulties not alone arising from the pressure on his time. Whichever view he favoured, there were sure to be opponents of it in the wide range of the bank's connection; soon he found it better not to speak, while later he discovered that there were dangers even in voting. The claims of his constituency and political allegiance came into conflict with the interests of his bank, and as ever the bank won. Before long his attendances at the House became infrequent, and in 1910 he refused to seek re-election. A year earlier a baronetcy had been conferred upon him in recognition of his eminence in banking and his services to the Government.

Yet, if a political career was a practical impossibility, there were other ways of bringing his opinions before the public, and these Holden utilized with characteristic initiative and thoroughness. Most effective of all was the platform provided by the annual meetings of the bank's shareholders. Here he would deliver each year a prodigious survey of banking in this country and throughout the world, occasionally illustrated with large-scale charts, and illuminated by trenchant disquisitions, sometimes extempore, upon monetary theory. In addition, he would occasionally read a paper before one or other of the learned societies or business associations, or give to the world through the press an opinion upon affairs of the day. Holden's commentaries were always eagerly sought for the independence and fearlessness of his mind, and it is these qualities that make his speeches of interest even at the present time. Like George Rae, he held strong views on the defects of the Bank Charter Act, and favoured the former " German system " of elastic currency issue. His speeches during the war were largely concerned with the financial problems of that time and those anticipated in the post-war years. They contained frequent references to the vast amount of credit that would be needed for industrial reconstruction and the corresponding need for large, strong banks. More than once he defended at length and with great force of conviction the practical application of the principle of banking consolidation.

It was his personal qualities again that gave to Holden a position of pre-eminence in the banking world. Yet his leadership was of a special sort, determined less by general acknowledgment of these qualities than by his readiness to express them in positive, and if necessary solitary, action. A typical example resulted from his conviction of the need for stronger gold reserves in English banking. First he sought to persuade the other banks to join with him in strengthening their holdings of gold, at the same time taking strong action in respect of his own bank. Later he endeavoured unsuccessfully to persuade the banks to publish separate figures of gold in their possession, and promptly announced in the next balance sheet of the Midland Bank, dated 1914, that the quantity of gold in its tills and strong-rooms amounted to £8 millions. A more successful effort at joint action was instigated by Holden at about the same time, when by personal appeals to the Chancellor of the Exchequer he persuaded the authorities to take immediate steps to establish the position of the Yorkshire Penny Bank.<sup>(1)</sup> His qualifications made it inevitable that he should frequently be called into consultation, particularly during the war years, with members of the Government. It is said that the issue of currency notes in August 1914 was determined upon mainly at his suggestion. Later his expert services in exchange arrangements with the United States, as well as in the numerous Government borrowing operations, proved invaluable. He was called upon to give evidence both before the "Cunliffe Committee" and the Committee on bank amalgamations.

It would have been incredible that Holden, in view of his peculiar qualities, should have passed through life without meeting opposition, merging at times into something very near to personal animosity. But the opposition he encountered had a more material basis than the clash of personality. In various ways he widened the scope of commercial banking in England, by the same process entering into preserves of specialized undertakings. The policy of competition through services, for example, was first expressed in his announcement, in 1905, of readiness to undertake foreign exchange business, and it was not long before all the large banks were obliged to follow suit. Yet, however wide were the effects on the banking system of the pursuit of his policy, Holden always returned to his own bank in particular

<sup>(1)</sup> See chapter VII.



for the full expression of his convictions, summed up in the two words "strength" and "service". It was in 1917 that he gave a new turn to the process of banking coalescence by the purchase of the capital of the Belfast Banking Company. Again, in the concluding year of the war he was engaged upon negotiations, beset by formidable difficulties, for the last and in many respects the greatest amalgamation of the Midland Bank—the union with the London Joint Stock Bank. The successful conclusion of these negotiations brought a final triumph to Holden. It is true that he had further extensions in mind, but a year after his last great fusion he died suddenly while on an enforced holiday in Scotland, and was buried in his native soil at the village of Summerseat.

The complex character of Holden does not admit of any simple portrayal, for the many conflicting shades obscure a clear outline. It is difficult, for example, to balance against each other his many acts of almost quixotic generosity and his well-nigh ruthless demands upon his subordinates. It is difficult, again, to see in the easily angered bank dictator the calculating negotiator of the most delicate transactions. Nor is it easy to set against his insatiable thirst for information an almost complete lack of interest in anything outside banking. A first interpretation of this strange admixture might accept all its components as evidence of almost uncontrollable vigour directed by an iron will to the service of a chosen undertaking. Probably, however, it is best to avoid attempts at precise description and adjudge him simply as a banking genius. For no other word is adequate to his achievement, and here at least there need be no hesitation. Measured by the fruits of his career, Holden was a colossus in the banking world: in all essentials he was a great exponent of Victorian principles of business; and more, he performed the astonishing feat of carrying the greatness of one era with added distinction into the early decades of its successor.

## APPENDIX A

### THE CHANNEL ISLANDS BANK.

THE remoteness of the Channel Islands from the mainland of Great Britain has been emphasized by differences in law and custom reaching back through many centuries. Nevertheless, broadly speaking, it may be said that banking development followed a similar course to that of England, for the several private firms in existence early in the nineteenth century all merged into joint stock institutions and eventually became part of the English banking system. In 1858 a bank was established in Jersey under the name of Horman, Anthoine, Ahier, Le Gros and Co., but generally known as the Channel Islands Bank. Although Jersey already boasted several banks, this new institution was successful, and for several years its course was uneventful. In 1873, however, a local banking crisis brought about a change of constitution and membership. As from March 1874 it became a joint stock company with Peter Briard as president, assisted by eight directors.<sup>(1)</sup> The capital stood at £12,000, and as this was divided into only forty shares (of £300, fully paid up), it is clear that the bank was, in fact, nearer to a private firm than a company, though it had always been described as a "joint stock" institution. Indeed, thirteen years later, in 1887, when the bank was registered with limited liability, there were only eleven shareholders, and seven of them were directors. At that time the subscribed capital was made up of 2,000 shares of £50 each, with £10 paid up, while deposits had risen to £118,000 from £59,000 in 1874.

Four years later a notable acquisition was made by the purchase for £5,000 of the business of the Jersey Old Bank, a long-established private firm of which Charles Godfray was the sole proprietor. In Jersey, as in England, the business of banking arose out of commercial and trading enterprises, and this firm, then just one hundred years old, had been grafted upon the business of a wine and spirit merchant, which was continued side by side with that of banking. Charles Godfray, though accepting office as a director of the Channel Islands Bank, rented back that portion

<sup>(1)</sup> These were: John Gibaut, George Balleine, Thomas Vibert, Matthew Gallichan, John Simon, junior, Edward Orange, Joshua Brayn and Moses F. Gibaut.

of the premises devoted to the wine business, and continued the trading side of his activities.

The Channel Islands Bank thereafter proceeded on its moderately prosperous way, paying regular dividends of ten per cent and conducting a steadily increasing business in Jersey. But now the Channel Islands were being drawn into closer contact with the mainland of Great Britain, not only through the export of horticultural products but also by their growing popularity as holiday centres. The London and Southampton Railway had been opened in 1839, but it was not until 1862 that a regular service of cargo steamers was inaugurated from Southampton to Jersey. Thereafter the traffic increased rapidly. Accordingly, some of the large English banks found it desirable to establish direct representation, and naturally sought to do so by taking over established institutions. In 1897 the Midland Bank began negotiations for absorbing the Channel Islands Bank, and these were carried to a successful conclusion in March.<sup>(1)</sup> Thus the Midland Bank made its solitary southward amalgamation, taking over a business represented by deposits of £311,000.

CHANNEL ISLANDS BANK

EXTRACTS FROM BALANCE SHEET FIGURES

			(£000 omitted)			
			Capital paid up	Reserve fund	Deposits	Loans and bills
1876	...	...	12	—	75	44
1886	...	...	20	6	85	50
1896	...	...	20	19	311	101

<sup>(1)</sup> The Midland paid £60,000 in cash for the business of the Channel Islands Bank, which was voluntarily liquidated.

APPENDIX B

ALPHABETICAL LIST OF BANKS DIRECTLY OR INDIRECTLY  
ABSORBED INTO THE MIDLAND OR ITS AFFILIATIONS

The route by which absorption took place is indicated in the last column of the table, where for each entry the number is inserted of the bank through which connection was established.

Num- ber	Name	Principal place	Dates	Numerical reference
	Aberdeen Town and County Bank ... ..	...	...	see 105
1	Albion Bank ... ..	London ..	1864-1871	72
2	Backhouse, J., and Co. ...	(Thirsk branch) ...	1774-1873	III
3	Bala Banking Company ...	Bala... ..	1864-1877	82
4	Banc y Llong ... ..	Aberystwyth	1762-1815	10
5	Bank of Birmingham ... ..	Birmingham	1832-1838	11
6	Bank of England ... ..	(Portsmouth branch) ...	1834-1914	72
7	Bank of Westmorland ...	Kendal ...	1833-1893	78
8	Barnsley Banking Company ...	Barnsley ...	1832-1897	III
9	Bate and Robins ... ..	Stourbridge	1770-1851	78
10	Benson and Co. ... ..	Aberystwyth	1815-1836	82
11	Birmingham Banking Company Birmingham and Midland Bank	Birmingham ... ..	1829-1889 ...	76 see 78
12	Borough of Tynemouth Trading Bank ... ..	North Shields	1885-1897	III
13	Bradbrook, H. ... ..	Bethnal Green	1840-1889	20
14	Bradford Banking Company ...	Bradford ...	1827-1910	78
15	Britain and Co. ... ..	Thirsk, ...	1810-1835	110
16	Bunney, Bunney and Pepper ...	Coventry ...	1800-1836	30
17	Carlisle City and District Bank- ing Company... ..	Carlisle ...	1837-1896	78
18	Carrick and Lee ... ..	Brampton ...	1830-1872	17
19	Cassons and Co. ... ..	Portmadoc ...	1847-1875	82
20	Central Bank of London, formerly East London Bank	London ...	1863-1891	78
21	Challis and Son... ..	London ...	1851-1864	1
22	Channel Islands Bank, formerly Horman, Anthoine, Ahier, Le Gros and Co. ... ..	Jersey ...	1858-1897	78

LIST OF BANKS ABSORBED INTO THE MIDLAND 447.

Number	Name	Principal place	Dates	Numerical reference
23	Chapman and Co. ... ..	Atherstone ...	?1800-1836	30
24	City Bank ... ..	London ...	1855-1898	78
25	City of Birmingham Bank ...	Birmingham	1897-1899	78
	Clarke, Richardson and Hodgson	... ..	...	see 91
26	Coates and Co. ... ..	Knaresborough	pre 1804-1835	110
27	Collis, W. B. ... ..	Stourbridge	1762-1770	9
28	Connell, J., and Co. ... ..	Carlisle ...	?1825-1836	17
29	Cooper, Purton and Sons	Bridgnorth ...	1817-1889	11
	Cousins, Allen and Co. ... ..	... ..	...	see 42
30	Coventry Union Banking Company ... ..	Coventry ...	1836-1889	78
31	Cumberland Union Banking Company ... ..	Workington	1829-1901	111
32	Darlington District Joint Stock Banking Company ... ..	Darlington ...	1831-1883	111
		Kington ...	-1910	76
33	Davies and Co. ... ..	Knighthon ...	1808	
			-1856	82
34	Derby Commercial Bank ... ..	Derby ...	1868-1890	78
35	Dickinson, Joseph ... ..	Alston ...	1847-1890	17
36	Douglas, Smalley and Co. ...	Holywell	pre 1822-1839	82
37	Dresser, Joseph, and Co. ...	Thirsk ...	?1820-1835	110
38	Duignan and Son ... ..	Walsall ...	?1840-1864	101
39	Dundee Commercial Bank ...	Dundee ...	1825-1838	40
	East London Bank ... ..	... ..	...	see 20
40	Eastern Bank of Scotland ...	Dundee ...	1838-1863	113
41	Edinburgh and Glasgow Bank, formerly Edinburgh and Leith Bank ... ..	Edinburgh ...	1838-1858	113
42	Exchange and Discount Bank, formerly J. J. Cousins, then Cousins, Allen & Co. ... ..	Leeds ...	1862-1890	78
43	Farrer, Williamson and Co. ...	Ripon ...	?18 -1838	111
44	Fishers and Co., formerly Joseph Wilkes and Co. ...	Ashby-de-la-Zouch ...	1780-1835	67
45	Fletcher and Stubbs ... ..	Borough-bridge	pre 1813-1833	111
46	Forster, Charles, and Sons ...	Walsall	pre 1793-1848	11
47	Frankland and Wilkinson, formerly Thomas Peirson ...	Whitby ...	1778-1845	111
48	Galton and James ... ..	Birmingham	1804-1829	11

448 LIST OF BANKS ABSORBED INTO THE MIDLAND

Number	Name	Principal place	Dates	Numerical reference
49	Gee, Thomas, and Co. ...	Boston ...	1788-1874	70
50	Gibbins and Lovell ...	Birmingham	1825-1829	11
51	Glasgow Joint Stock Bank ...	Glasgow ...	1840-1844	41
52	Godfray, Major and Godfray ...	Jersey ...	1797-1891	22
53	Gordon and Co. ...	Belfast ...	1808-1827	112
54	Greenock Union Bank ...	Greenock ...	1840-1844	113
55	Greenway, Smith and Greenway	Warwick ...	1791-1887	101
56	Harding and Co. ...	Bridlington...	1802-1878	111
57	Hardy and Co. ...	Grantham ...	1819-1895	67
58	Head, Charles, and Co....	Hexham ...	1830-1865	31
59	Head, J. M., and Co. ...	Carlisle ...	1804-1865	31
	Horman, Anthoine, Ahier, Le Gros and Co. ...	... ..	... ..	see 22
60	Huddersfield Banking Company	Huddersfield	1827-1897	78
61	Hull Banking Company ...	Hull ...	1833-1894	111
62	Imperial Bank ...	London ...	1862-1893	72
63	Jones, William, and Son ...	Bilston ...	1824-1864	101
64	Lacy, Hartland, Woodbridge and Co., formerly Pocklington and Lacy ...	London ...	1809-1891	78
65	Leamington Priors and Warwickshire Banking Company ...	Leamington Spa ...	1835-1889	78
66	Leeds and County Bank ...	Leeds ...	1862-1890	78
67	Leicestershire Banking Company	Leicester ...	1829-1900	78
68	Leith Banking Company ...	(Carlisle branch) ...	1792-1837	17
69	Leyland and Bullins ...	Liverpool ...	1807-1901	82
70	Lincoln and Lindsey Banking Company ...	Lincoln ...	1833-1913	78
71	Little and Woodcock ...	Coventry ...	1762-1865	11
	London and Midland Bank ...	} ... ..	} ... ..	} see 78
	London City and Midland Bank			
	London Joint City and Midland Bank ...			
72	London Joint Stock Bank ...	London ...	1836-1918	78
73	Manchester Joint Stock Bank, formerly Robertson, Fraser and Co. ...	Manchester	1863-1892	78
74	Mercantile Bank ...	London ...	1861-1862	75
75	Metropolitan and Provincial Bank, later Royal Exchange Bank	London ...	1861-1889	76

LIST OF BANKS ABSORBED INTO THE MIDLAND 449

Number	Name	Principal place	Dates	Numerical reference
76	Metropolitan and Birmingham Bank, later Metropolitan, Birmingham and South Wales Bank, later Metropolitan Bank (of England and Wales) ...	London ...	1889-1914	78
77	Middleton, Cradock and Middleton ... ..	Loughborough	1790-1878 1836-	67
78	Midland Bank ... ..	Leicester ...	?1814-1835	67
79	Miller and Co. ... ..	...	...	see 83
80	Moss and Co. ... ..	Cardiff ...	1879-1893	76
81	National Bank of Wales ...	Bewdley ...	1782-1862	78
82	North and South Wales Bank	Liverpool ...	1836-1908	78
83	North-Western Bank, formerly Moss and Co.... ..	Liverpool ...	1807-1897	78
84	Nottingham Joint Stock Bank	Nottingham	1865-1905	78
85	Oldham Joint Stock Bank ...	Oldham ...	1880-1898	78
86	Parker, Shore and Co.... ..	Sheffield ...	1774-1843	97
	Peirson, Thomas ... ..	...	...	see 47
87	Perfect and Co.... ..	Leeds ...	?1809-1834	110
	Pocklington and Lacy ... ..	...	...	see 64
88	Pontefract and Goole Joint Stock Bank ... ..	Pontefract ...	1861-1862	66
89	Preston Banking Company ...	Preston ...	1844-1894	78
90	Pugh, Jones and Co. ... ..	Pwllheli ...	1848-1891	80
91	Richardson, Holt and Co. formerly Clarke, Richardson and Hodgson ... ..	Whitby ...	1786-1843	111
92	Rimingtons and Younges ...	Sheffield ...	1816-1843	98
	Robertson, Fraser and Co. ...	...	...	see 73
93	Rochdale Joint Stock Bank, formerly Rochdale Commercial Loan and Discount Company	Rochdale ...	1861-1882	85
	Royal Exchange Bank ... ..	...	...	see 75
94	Sanderson, Joseph ... ..	Cockermouth	?1829-1837	17
95	Sankey, R., and Co. ... ..	Denbigh ...	1790-1836	82
96	Sheffield and Hallamshire Bank	Sheffield ...	1836-1913	78
97	Sheffield Union Banking Company ... ..	Sheffield ...	1843-1901	78
98	Sheffield and Retford Bank ...	(Retford branch) ...	1839-1846	97
99	South Wales Union Bank, formerly Swansea Bank ...	Swansea ...	1873-1892	76

450 LIST OF BANKS ABSORBED INTO THE MIDLAND

Num-ber	Name	Principal place	Dates	Numerical reference
100	Southern Bank of Scotland ...	Dumfries ...	1838-1842	41
101	Staffordshire Joint Stock Bank	Bilston ...	1864-1889	11.
102	Stourbridge and Kidderminster Banking Company ...	Stourbridge...	1834-1880	11
	Swansea Bank ...	...	...	see 99
103	Tennent and Co. ...	Belfast ...	1809-1827	112
104	Tomes, Chattaway and Ford	Stratford-on-Avon ...	1810-1834	102
105	Town and County Bank, formerly Aberdeen Town and County Bank ...	Aberdeen ...	1825-1908	114
106	Union Bank of Birmingham ...	Birmingham	1878-1883	78
107	Wakefield, Crewdson and Co....	(Carlisle branch) ...	1788-1837	17
	Wilkes, Joseph, and Co. ...	...	...	see 44
108	Williams and Son ...	Dolgelley ...	1803-1873	82
109	Wright and Co....	London ...	1759-1840	72
110	Yorkshire Banking Company, formerly Yorkshire District Banking Company ...	Leeds ...	1834-1901	78
111	York City and County Bank ...	York ...	1830-1909	72

AFFILIATIONS OF MIDLAND BANK

	Name	Principal place	Date of establishment	Date of affiliation with Midland
112	Belfast Banking Company ...	Belfast ...	1827	1917
113	The Clydesdale Bank...	Glasgow ...	1838	1920
114	North of Scotland Bank	Aberdeen ...	1836	1924



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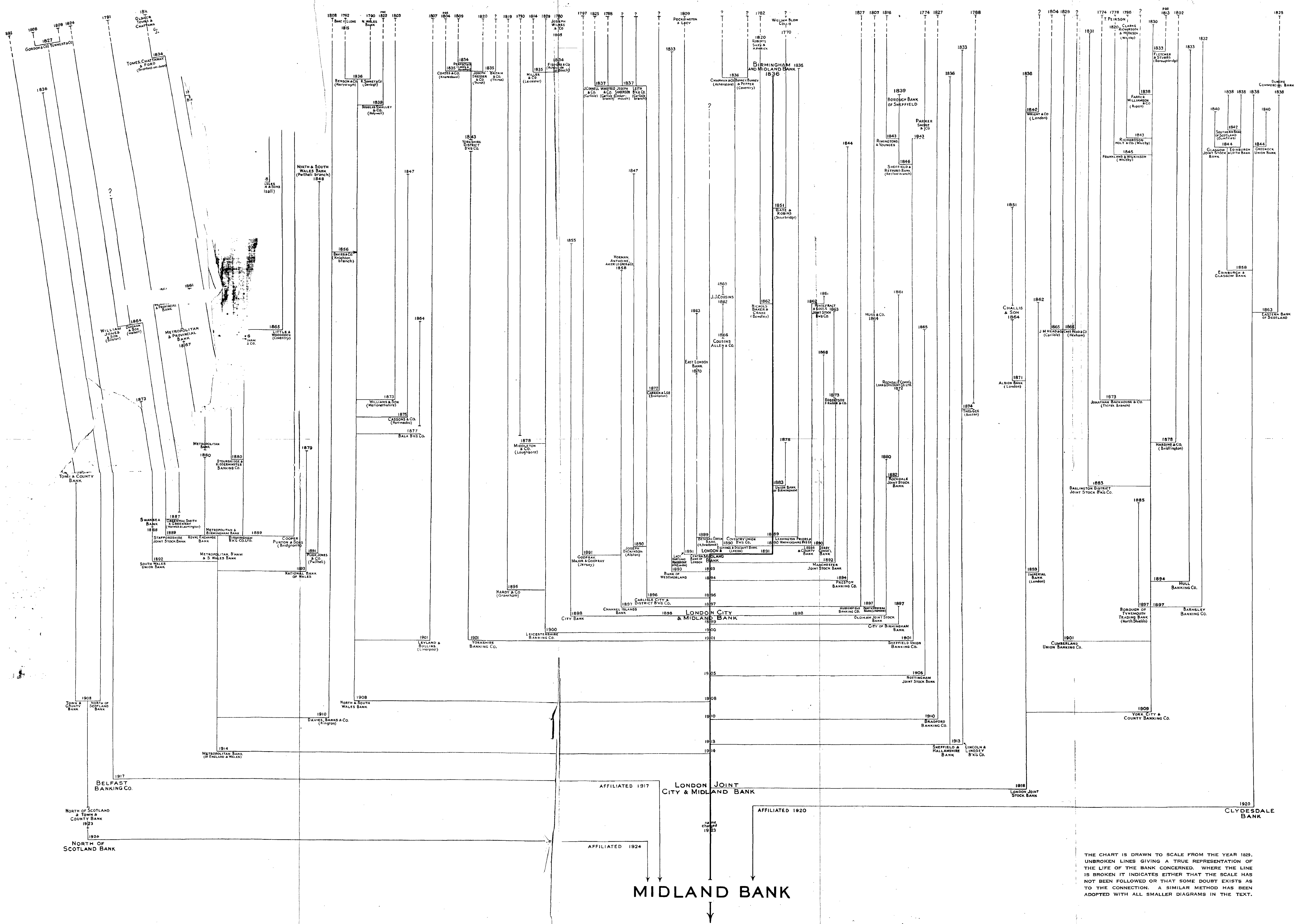
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THE CHART IS DRAWN TO SCALE FROM THE YEAR 1829. UNBROKEN LINES GIVING A TRUE REPRESENTATION OF THE LIFE OF THE BANK CONCERNED, WHERE THE LINE IS BROKEN IT INDICATES EITHER THAT THE SCALE HAS NOT BEEN FOLLOWED OR THAT SOME DOUBT EXISTS AS TO THE CONNECTION. A SIMILAR METHOD HAS BEEN ADOPTED WITH ALL SMALLER DIAGRAMS IN THE TEXT.