PAGES MISSING WITHIN THE BOOK ONLY

UNIVERSAL
LIBRARY

OU_154427

UNIVERSAL
LIBRARY

THE INTERNATIONAL BANKS

THE INTERNATIONAL BANKS

BY

A. S. J. BASTER, Ph.D.(Lond.)

Lecturer in Economics, University College, Exeter

LONDON

P. S. KING & SON, LTD.

ORCHARD HOUSE, 14 GREAT SMITH STREET

WESTMINSTER, S.W.1

1935

PREFACE

THIS book is the fourth of a series of investigations into some aspects of present-day British banking undertaken by the Department of Economics at University College, Exeter. Intended as a supplement to *The Imperial Banks* by the same author, published in 1929, it offers a brief description of the history and present position of the well defined group of London banks operating mainly in foreign countries.

The position of these institutions in the British banking system and in the London money market is an integral one; from their activities, London draws much of its essential importance as an international monetary centre, and on their efficient operation in the future the maintenance of British foreign trade and the supervision of British foreign investment depend in no small measure. The advantage which this work possesses of being the first attempt at a general comprehensive account of their activities yet published is therefore a somewhat unexpected one. It may serve, perhaps, to explain many shortcomings.

Apart from the large number of my informants who for professional reasons prefer to remain anonymous, I am happy to acknowledge particular help received from the following persons: Mr. F. C. Ellerton, Professor T. E. Gregory, Mr. W. J. Hinton, Professor E. W. Kemmerer, Mr. M. Megrah, Dr. M. Palyi, Mr. W. F. Spalding, and the Librarian of H.M. Treasury. I thank the Editors of *Economic History* and the *Economic History Review* for permission to reproduce some facts which have appeared

in articles of mine in these journals, and I acknowledge with gratitude the welcome financial assistance I have received from the University College. My work owes much to the almost superhuman forbearance of my wife and daughter, to whom it is affectionately dedicated.

A. S. J. B.

EXETER.
December, 1934.

CONTENTS

CHAP.		PAGE
	PREFACE	v
I	INTRODUCTORY	1
II	THE COMMON DIFFICULTIES OF BANKS OPERATING ABROAD	10
	(*a*) Technical	10
	(*b*) Legal	25
	(*c*) Political	34
III	A PREMATURE INVASION: THE BANKING MANIA SPREADS TO EUROPE	39
IV	BANKING AND POLITICS IN THE NEAR EAST . .	59
	(*a*) Egypt	61
	(*b*) Turkey Proper.	78
	(*c*) Tunis	112
	(*d*) Persia	119
V	FINANCIAL PIONEERING IN NEW COUNTRIES . .	126
	(*a*) Latin America.	126
	(*b*) North America	156
VI	THE GREAT EXCHANGE BANKS AND THE FAR EASTERN TRADE	160
VII	THE WAR AND THE ERA OF ECONOMIC NATIONALISM .	190
	CONCLUSION	234
	TABLES	245

CHAPTER I

INTRODUCTORY

INTERNATIONAL banks exist mainly to transfer capital, in one form or another, from countries where it is cheap to countries where it is dear. They form a part of the economic mechanism through which the tendency to an equalization of interest rates makes itself felt. In a world of economically interdependent States, their activities are therefore of the greatest importance. Their history really begins when international capital movements on a large scale were undertaken by institutions created specially for the purpose—that is, during the period of large capital exports from industrialized England in the early years of the nineteenth century.

It was at this time that the international connections of the London money market began to be extended very rapidly, owing to the shifting of the centres of international finance from Germany and Holland on account of the growing means of the London market and the narrowing scope and impaired security of the continental ones. The dominant part played by the British in financing and fitting out coalitions against Napoleon, and the flight of capital and capitalists to London, laid the foundations for an immense financial business in an equally congenial but much less disturbed business atmosphere than that of Paris or the rich cities of the lower Rhine ; and the international connections necessary for this were greatly strengthened and extended when a large proportion of the carrying trade of the world fell to the British mercantile marine after the wars, and when the gradual industrialization of Europe in the following decades proceeded so largely on British initiative and by means of British capital.

By the middle of the nineteenth century, London financial houses of the type of Barings, Mastermans, or Devaux, had connections of various degrees of intimacy extending to all the important European countries—in not a few cases in the form of English houses resident abroad. The function of these London merchant bankers, as they came to be called, was, in the first half of the nineteenth century, mainly that of managing long-term foreign loans ; but with the growing capacity of the short money market, the expansion of international trade, and the sweeping progress of the industrial and commercial revolution in the other European countries, there came into prominence another profitable form of capital export destined to play a decisive part in the subsequent history of the international banks. This was the business in acceptance credits.

This business was not by any means monopolized by the old-established merchant bankers, and in fact it gave rise to an altogether new group of banking institutions, with which this book is mostly concerned. A great deal of the financing of foreign trade, whether by means of these credits or in other ways, had been in the hands of the great chartered companies, in the days when they had held a monopoly of a great part of this trade, and were large enough and rich enough to make their own financial arrangements for it. But chartered trading monopolies ran counter to the commercial spirit of the new age, in the early part of the nineteenth century, and the system was then being gradually replaced by unregulated competition in the former closed areas. The East India Company, for instance, abandoned its trading rights in 1833, and the Turkey Company surrendered its charter in 1821, " as an offering to the enlarged and liberal spirit of commerce which now distinguished England." [1] The financial arrangements necessary for the multitude of small traders now in the business could more advantageously be made by a specialist institution, and a group of new international banks was therefore brought into existence. Large mercantile houses continued to play an important part, but as their business became more and more

[1] Clapham, *Economic History of England*, Vol. I, p. 253.

financial and less mercantile they also began to turn themselves into joint stock banks, much as the older merchant bankers had turned themselves into banking partnerships before them.

The principal function of the new banks was to accept bills drawn by consignors abroad, on behalf of importers, factors, or merchants. The business was greatly increased and placed on a much more systematic basis later in the century, when transport and communication facilities were considerably speeded up,[1] and the consignment system in the staple export trades gave way to direct offers by cable,[2] and there was a rapid expansion in the business of the older-established international banks and the appearance of a crop of new ones. The field was at that time attractively free of competition from the great London deposit banks, who, for the most part, undertook acceptance business only with reluctance.[3]

This caution was well founded on experience, for it was over-extension of acceptance facilities which undoubtedly aggravated the great commercial panics in the latter half of the nineteenth century. But interest now began to be shown from another quarter. By 1870, the influx of merchant bankers from abroad had nearly ceased, Speyers of New York, who came to London in 1862, being the last immigrant of any importance. At the same time, the group of Anglo-foreign joint stock banks had become more stable with the weeding out of the feeble creations of the early 'sixties, and few new projects were brought to fruition. The new invasion came rather from the larger foreign joint stock banks, such as the Deutsche Bank and the Credit Lyonnais, who were attracted not only by the facilities of the London acceptance market, but by the prospect of taking

[1] The Atlantic cable of 1866 was the first successful one of a series of long-distance, deep-water cables which in the next ten years brought the chief countries of the world into instant touch with one another. By the early 'eighties, there was telegraphic communication with North and South America, Africa, Asia, Australia, and the Near East.

[2] Clapham, *op. cit.*, Vol. I, p. 256; Vol. II, p. 313.

[3] Cf. evidence of these bankers before the Select Committee on Banks of Issue of 1875. The London and Westminster stated (Q. 7300–427) that "many accounts of great value are refused simply on the ground that they would involve foreign acceptances."

over a monopoly of business in foreign exchange from the hands of the Rothschilds, Huths, Raphaels, and other merchant bankers, who were now concentrating exclusively on the foreign issue business.[1]

Thus the network of international banking connections centred on London was extended in these various ways until a few years before the War, when a certain disquiet was felt that so many of these connections were in foreign hands, and the deposit banks themselves began to be drawn into it. The process has continued since, but has been seriously interrupted by the strong tendency to economic nationalism all over the world since the War.

The principal activities of the international banks, as the common medium for capital exports, need some further explanation. Capital exports may be conveniently divided, for the present purpose, into long-term and short-term movements. Through the agency of the banks, long-term loans have been made to foreign governments and foreign commercial and industrial concerns chiefly for purposes of economic development extending over a series of years. These loans commonly remain outstanding for decades. Short-term loans, on the other hand, are granted in the finance of foreign trade, usually against the security of a bill of exchange with a term no longer than three months. Almost all of the banks to be considered have, at some time or other, done both kinds of business. But the problems which arise, and the organization necessary to meet them, vary so much as between the two different types that it is convenient, as well as truer to reality, to refer to these two main functions separately.

In its work, then, of directing movements of long-term capital, the bank will act as an intermediary between the borrower and its own investing public, arranging the terms, the underwriting, and the flotation of the issue, and undertaking the annual service of the loan afterwards. In the case of private businesses abroad, the bank may not only secure the capital from its own nationals, but may set up the foreign enterprise, and seek the necessary concession

[1] Powell, *Evolution of the London Money Market*, p. 286.

from the foreign Government to operate it, as the Deutsche Bank did in the famous case of the Bagdad Railway before the War. This kind of activity raises some serious political problems—as to whether public loans ought to be proffered in exchange for commercial concessions in backward countries, and generally, as to the degree of foreign interference in the economic life of a politically subordinate nation which is at all desirable. The experience of the nineteenth century, when it was customary for the banks supervising such investment to be officially supported, has definite but depressing conclusions to offer on this.

The actual business, however, demands no clearly defined type of organization but rather, long-established reputation and intimate connections in financial circles at home and abroad. Much of it has consequently tended to fall to private banking firms of international repute, whose field of activity and national specialities are generally well known in each great monetary centre. The public banks concerned with it seldom specialize exclusively on this type of business, and most often perform the second function also, that of financing foreign trade by means of short-term capital.

Quite different considerations apply here. The characteristic condition for profitable financing of foreign trade by the international banks arises where trade springs up between a comparatively poor and undeveloped country, with great potential resources in raw materials, and a rich settled manufacturing country with a large surplus to invest. In the early stages, the trade will consist typically of the exchange of manufactures against raw materials. The foreign buyer of the manufactures will not pay for them until he has sold them in his own country ; the manufacturer at home has insufficient capital to keep his business going until the proceeds of foreign sales are received. A bank therefore steps in, buys the importer's debt from the manufacturer, and collects it in due course. Conversely, the foreign exporter, who will demand cash for his products, will be accommodated with an advance from the same bank.

The actual arrangements naturally vary considerably in practice, and the various services rendered by the banks

to international trade are thus difficult to summarize adequately. One of the most important is the collection of information—particularly credit information, in countries where commercial morality is not very strict. For a new bank, this is a particularly difficult task.[1] Another is the introduction of buyers and sellers, and the creation of new business, for which all the banks make more or less effective efforts.[2] The collection of debts against the delivery of goods is also a vital and important service. The bank usually obtains acceptance and payment of a bill of exchange, and delivers to the consignee the documents of title to the goods, which may have been stored in the bank's own warehouse meantime. Methods of advancing against the security of debts that arise in this way, exist in endless variety; but the most common form is the banker's credit, under which the bank advances money to the exporter in the foreign country on shipment of the goods, and recovers it from his importing customer later. It is in this way that the London bank acceptance arose—through exporters abroad exercising their rights to draw on London bankers in satisfaction of their claims on importers. The granting of acceptance credits is, in fact, still one of the most important functions of the international banks in London, though the security, according to the much less strict standards now enforced, is frequently anything but sold goods in transit.

To a striking degree, the development of much of the new international trade of the nineteenth century was dependent upon the growth of international banking facilities. In Great Britain manufacturing industries on an export basis existed *before* the banks began to develop their present network of international connections; but their subsequent development was immensely facilitated by these connections. In Germany, the banks themselves took the initiative much more, largely owing to their existing responsibilities for the

[1] The German overseas banks are supposed originally to have undertaken collection business for foreign clients at a loss, in order to build up a file of reliable credit information for their own nationals. Cf. Caillez, *L'Expansion du Crédit au Commerce Exterieure*, Paris, 1923, p. 96.

[2] The German banks in South America used to exhibit samples of German goods in their offices.

extension of German industry. The statutes of the Deutsche Bank of 1870 are significant in this connection. They state that the Bank is formed " to carry on banking business of all kinds, and in particular to develop and to facilitate commercial relations between Germany and the other European countries and overseas markets." Perhaps some part of the relatively inferior position of French foreign trade before the War may be explained by lack of foreign connections of the French banking system adapted to this business. The criticism was constantly urged in France,[1] and echoes of it are occasionally heard in other countries.

On all sides the importance of banking connections abroad as the first essential for an expanding foreign trade is generally acknowledged. In many of the chief trading nations of the world, the provision of some kind of special banking machinery for financing foreign trade is considered so important that, where private enterprise is deemed inadequate, the State assumes the responsibility for it. In the United States, direct Government encouragement was given to the formation of American-foreign banks by Section 25 of the Federal Reserve Act of 1913, and by the Edge Amendment of 1919, authorizing the formation of foreign banking corporations with very wide powers. The finance of American export trade during the War was also specially facilitated by the creation of the War Finance Corporation of 1918, and a Federal Export Bank is now to be specially created for the finance of trade with Soviet Russia. In France, the long agitation for the expansion of foreign credit facilities finally moved the Government to incorporate the Banque Nationale Française pour le Commerce d'Exterieure in 1919, and in 1924, the German Government founded the Golddiskontbank to help finance German imports of raw materials. Japan has had an official foreign trade bank—the Yokohama Specie—since 1879, at the time when the country was suddenly opened to foreign intercourse, and found itself without any of the necessary banking facilities. Even in England, the Government has attempted to supply

[1] Cf. e.g. Caillez, *op. cit.*, p. 212 ; St. Maurice, *Sociétés de Crédit*, Paris, 1911, p. 87 ; Doumergue, *Question des Sociétés de Crédit*, Paris, 1910, Chap. III.

alleged *lacunæ* in the overseas banking arrangements by opening the Export Credits Department of the Board of Trade, and by chartering the British Trade Corporation.

A powerful reason for the strong support given to these projects in official and business circles is undoubtedly the belief that the national trading interests abroad cannot be reliably served unless there is a national bank there to do it. All international banks are very commonly suspected of giving preferential treatment to their own nationals, at the expense of the foreigners who use their services. Unquestionably, a large part of the public interest taken in the formation of overseas banks in France, Germany and the United States, has undoubtedly been due to the belief that the foreign trade of these countries stood in danger of diversion into English hands so long as it was financed through English banks.[1]

Business connections and business secrets were considered unsafe in foreign hands, accusations of sharp practice were common, and the cheaper facilities offered by the foreign banks were considered but a trap for the unwary.[2] The German overseas banks particularly, were a favourite target of this criticism in England, on the ground that the industrial interests of their parent institutions would cause them to seek to divert business away from other nationalities.

Apart from the main business of financing foreign trade and supervising long-term capital distribution abroad, overseas banks have been founded for other less important reasons. There is possibly some truth in the suggestion that the British and American banks on the Continent were attracted by the possibility of profits on the enormous

[1] Cf. Phelps, *Foreign Expansion of American Banks*, New York, 1927, pp. 47–50, 69; Duforcq-Lagelouse, *Les Banques Etrangères en France*, Paris, 1922, p. 98; Kemmerer, *A B C of the Federal Reserve System*, p. 23; Strasser, *Die Deutschen Banken im Ausland*, München, 1925, p. 23; Hauser, *Germany's Commercial Grip on the World*, pp. 164–5.

[2] "Certain foreign banks are undertaking British business at a very low rate in order to secure the opportunity of examining shipping documents and so collect intimate detailed information concerning the class of goods, their quality, price, marks, etc., which are being sold. British houses cannot be too strongly warned to employ British or Anglo-foreign banks for their operations abroad and not to be tempted by exceptional facilities offered by foreign banks."—*The Times Trade Supplement*, July, 1916.

exchange business which grew up after the War in the fluctuating European currencies. During the inflationist excesses, much international trade in Europe was carried on in terms of the relatively stable currencies rather than in the currencies of the trading countries, and the need came to be felt, not for more advances to finance it, but for greater exchange facilities to enable the risk of fluctuations to be borne more economically. Thus, exporters from countries with depreciating currencies would demand in payment a draft on their own monetary centre, drawn in terms of dollars or sterling, and payable at the drawee bank's buying rate for sight drafts on New York or London. The exporter could then choose his own time to present the draft and obtain payment in his own currency at the rate of the day. Such transactions inevitably threw a great deal of foreign exchange business into the hands of banks in the stable centres, particularly if they had their own branches abroad. But probably the main source of profit of the best of these continental branches now is an exchange arbitrage business not directly connected with trading activities at all.

The specialized operations of the international banks usually distinguish these institutions sharply from all others in the large monetary centres. Before the War, the Anglo-foreign banks certainly formed a very well-defined group of their own, and although the distinction has been somewhat blurred since by the omnivorous appetite of the great London joint stock banks for every kind of banking business, it is still plain enough to illustrate, even to the new-comer, the lengths to which specialization is even now carried in the London money market. Amongst the group are banks known in every financial centre in the world, whose development has followed that of the money market itself, and whose place in the British banking system is an essential and integral one. There can be no doubt of the importance of these banks to a country dependent so largely on international trade and investment as Great Britain is.

CHAPTER II

THE COMMON DIFFICULTIES OF BANKS OPERATING ABROAD

THE obstacles which have to be overcome by banks before they can even establish themselves in a foreign country are many and serious ; the obstacles to the successful operation of business over a long period are even more formidable. So many instances of failure to overcome them occur throughout the history of the international banks that they are worth some preliminary consideration.

(*a*) TECHNICAL DIFFICULTIES

The best method of incorporation of banks designed to operate abroad has often been somewhat of a problem in the past, particularly in England. Here, joint stock banks could not ordinarily be formed with limited liability. But in view of the risks involved in controlling a business working perhaps thousands of miles away, the early banks circumvented the ordinary legal prohibition of limited liability by the cumbrous and costly procedure of seeking incorporation by Royal Charter, the Crown being empowered by 6 Geo. IV, c. 91, to limit the liability of members of a corporation in any way thought proper.

Throughout the first half of the nineteenth century, this, then, was the normal method of incorporation of all the British overseas banks. The valuable experience thus gained by the Government authorities resulted in the production of an important code of Banking Regulations [1] to which the constitutions of new banks had to conform ; and in 1844, the experiment was made of attempting to incorporate some of this experience and some of the Regulations

[1] Cf. *The Imperial Banks*, Chap. II.

into an Act of Parliament (7 and 8 Vict., c. 113) designed to make all banks, domestic and overseas, use the charter procedure as the normal method of incorporation. Unfortunately, prejudice was created against it by the calamitous failure of one of the domestic banks incorporated under it—the Royal British Bank—in 1857. The Act was consequently repealed and the Act of 1857 (20 and 21 Vict., c. 49) substituted for it. This brought joint stock banks under the provisions of the Companies Act of the previous year, without however giving them the privilege of limited liability; but this was conceded in 1858 (21 and 22 Vict., c. 91) at the conclusion of a very long controversy, and the whole legislation was codified under the comprehensive Companies Act, 1862. The great majority of joint stock banks subsequently, whether domestic or overseas, were incorporated under this statute. In special instances, the Royal Charter procedure was still available, and, of course, a private Act of Parliament could always be sought, in very important cases where delay and expense were not objectionable. But the monopoly of the Bank of England effectively shut out all domestic banks from the former facilities, and the foreign and colonial banks found the Government increasingly unwilling to sanction their use after 1862.[1] The British banks which form the subjects of this study were thus, in fact, incorporated in three main ways: (*a*) by Royal Charter; (*b*) under the Act of 1844; and (*c*) under the Acts of 1857 and 1858, and the codifying Act of 1862.

All overseas banks must be very solidly supported in the home financial centre before they can hope to gain a firm footing abroad. This is why several important banks have started with a nucleus of business from merchants at home, mainly interested in trading with the foreign country in which the bank is to operate. The Anglo-South American Bank, for instance, was founded by British merchants interested in the Chilean nitrate industry, the Hongkong and Shanghai Bank by a group of British and other "Agency Houses" in Hongkong. If the bank is to depend primarily on the finance of foreign trade for its profits, support from

[1] *Ibid.*, Chap. IV.

the home trading community is absolutely essential if it is to fulfil its function as an integral part of the home banking system. Furthermore, there must be ample resources and a good margin of working capital in view of the heavy expense of organizing a foreign business and the uncertainties of the first few years. For this reason the local and regional banks of France and the smaller interior banks of the United States could not hope to undertake foreign business directly [1]; they have small means, second-hand sources of information, and no international financial standing. These requirements do not always mean that the bank itself must be large. In the English instances this is so, but the German overseas banks were at first quite small, their duty being to prepare the way for important business, such as the flotation of large public loans, which was then carried out by the parent bank in Germany.[2]

The bank must also be able to rely upon a well-developed bill market in its home centre. This has been an unquestionably important factor in the success of the British banks and the late start of the Americans. Before the War, there was no international bill market at all in the United States, and American banks which could do so were very hesitant about accepting bills, even those drawn at short dates by parties of undoubted security. The lack of a bill market made these securities simply unrealizable at short notice. At the same time, national banks were not allowed by law to accept bills at all, and, in addition, were prohibited from founding branches abroad. The American banking system consequently had few direct world contacts, and was so handicapped in financing foreign trade that a great part of the business coming from American sources was in foreign hands. No doubt the restrictive effect of the legal provisions was much exaggerated, since the private bankers in New York, comparable in importance to those in London, had full powers to accept. The fact remains, nevertheless, that they did not use them, and that American foreign

[1] Cf. Caillez, *op. cit.*, p. 220; Edwards, *International Trade Finance*, New York, 1926, Chap. V.

[2] F. Lange, *Expansion und Volkswirtschaftlicher Bedeutung deutscher Uberseebanken*, Berlin, 1926, Chap. III.

traders consequently depended upon their own resources or upon open credits from the banks to finance their business, if they did not go to some foreign bank for the more usual facilities. It is conceivable that as a result of this, the volume of American foreign trade was smaller, and that American exporters concentrated their attention upon European markets, needing much less generous credit terms, as against those of South America and the Far East, where the terms of credit asked were too long to be undertaken by any but a European overseas bank.

The noticeable effect of this dependence of the overseas bank upon the home bill market has been that large numbers of these institutions before the War were obliged to be strongly represented in London whatever their own national origin, because fierce competition in the various parts of the world where they met forced them to use the facilities of the cheapest and most reliable money market available. Large numbers were also attracted to Paris in addition,[1] but the greater breadth of the London market, and its more extended banking and trading connections, brought most here in spite of a persistent fractional difference in money rates in favour of Paris.

Since so much of the financing of the world's trade was consequently done in London, the sterling bill acquired a kind of world currency for this purpose, and in many of the important centres of world trade abroad, sterling exchange quotations (the " cross-rate " on London) were the basis for all others. But this was much resented by the merchants and bankers of other nations, and the German slogan—" *Los von London* "—used in this connection before the War, came to express a financial aspiration very cordially cherished in many countries ; more especially as, in order to build up a world market for currencies other than sterling, strong banking representation had first to be sought in London itself, in order to secure any part of the business at all. An aggravating consequence of the popularity of

[1] Cf. Kaufman, *op. cit.*, p. 198. Kaufman also pays tribute to the low money rates in Paris as helping French overseas banks abroad, and mentions specially the very profitable Russian agencies of the Crédit Lyonnais in this connection (p. 323).

the sterling bill was the so-called " discrimination " against bills drawn in other currencies from centres abroad. Dollar bills were said to be quoted at a disparity of 1–1½ per cent compared with sterling throughout the principal banking centres of South America,[1] and there was also " discrimination " against them in China.[2] Numerous complaints in the same vein were also made about the inferior position of mark bills.[3] What the critics meant was that direct remittances on Berlin and New York in marks and dollars always had to be bought and sold at slightly worse rates than sterling remittances on London, reimbursed there by drafts on the other centres in the currency required. Diouritch gives the following example, and shows the difference over a long period for the exchange on Rio [4]:

Telegraphic Transfer for One Mark bought *Indirectly*.	Telegraphic Transfer for One Mark bought *Directly*.
T.T. rate on London: 11·695 pence per milreis	T.T. rate on Hamburg: 1006·339 reis per mark.
With marks at 20·415 per £1 in London—	

$$1 \text{ mark} = \frac{1000}{11{\cdot}695} \times \frac{240}{20{\cdot}415} = 1005{\cdot}222 \text{ reis.}$$

A consistent difference of 1·117 reis in the rate would thus be sufficient to drive the German banks to London, where, other things being equal, they could sell indirect remittances on the same terms as their British competitors. This is exactly what did happen, and it was noticeable how, during and after the War, the German banks tried to use Amsterdam as a substitute for London in the business, using English and American funds lent there at short notice.[5] There is, of course, no truth in the assertion that the British banks deliberately discriminated against dollar and other bills on

[1] U.S. Dept. of Commerce, Special Agents Series, No. 90, p. 9.

[2] Lee, *Currency and Banking in China*, U.S. Dept. of Commerce Trade Promotion Series, No. 27, 1926, p. 114. The U.S. Consul at Canton reported a much wider " spread " between the buying and selling rates for dollars than for sterling.

[3] Diouritch, *Expansion des Banques Allemandes*, Paris, 1909, pp. 262–4.

[4] See Table 16.

[5] Cf. Benfey, *Neuere Entwicklung des deutschen Auslandsbankwesen*, Berlin, 1925. It was for this reason that the Dutch guilder began to be quoted in overseas markets, notably for the finance of wool shipments from the Argentine, and in other South American countries, South Africa and the Baltic.

nationalistic grounds ; the fact is that the sterling exchange market was broader than any of the others, and the prices quoted were usually slightly better on this account, just as nationally known securities which exist in large amounts fetch better prices on the average than similar but lesser known ones which can be dealt with only in small lots. But the situation illustrates well the principle that overseas banks must be supported at home by a large, cheap and well-organized bill market.

If the bank is well supported at home, and confident of securing a place abroad, there still remain the technical difficulties of operating it. Amongst these, the choice of a competent and reliable staff is one of the most important and most troublesome. Successful banking in South America, Asia Minor, or the Far East, involves a technique to which training in a European or American institution is little guide. The business has much less of an established routine, and as a rule makes more demands upon enterprise and initiative, because of the distance of the Head Office from the scene of operations and its lack of special knowledge. The staff abroad thus has to have a degree of freedom that would probably be accounted intoxicating at home, in order to accommodate itself to the peculiar conditions in the foreign country.

This freedom has occasionally been abused ; and training is, in any case, a long, slow, and sometimes costly procedure. But the facts have long been well known to British overseas bankers, some of whom have a vivid memory of the costly mistakes committed by managers in the past, from which the bank has taken years to recover.[1] Many large banks

[1] Bank reports of the 'sixties and 'seventies abound in instances of this. The London and Brazilian Bank, for instance, was forced to write off £230,000 in 1869, largely as a result of incompetent managers at Rio and Pernambuco. The Bank of Egypt was reported in 1864 " nearly ruined in everything but credit " as the result of the imprudent loan of £162,000 made by the local managers to one of the Egyptian princes. The Hong-kong Bank lost £171,000 in 1875 through unauthorized investments by its London managers. Some banks took fright at the risks involved and withdrew from overseas business ; the Deutsche Bank reported in 1874 that its branches in the Far East would be closed because they could not be properly controlled at such a distance. It is noteworthy that the French Banques d'Affaires have never entrusted their complex business to numerous branches abroad, for the same reason. Cf. Baldy, *Les Banques d'Affaires*, Paris, 1922, p. 105.

during the nineteenth century were ruined altogether by incompetent or dishonest managers abroad and a system of control which failed to find them out. To this dearly bought British experience an American writer pays a deserved compliment.[1]

> Success in the field of overseas banking [he writes] requires a special managerial capacity which can only be developed by long years of training in actual foreign branch banking practice. Capable branch managers and experienced staffs cannot be made in a day. The United States has no such men, and although some of our institutions endeavoured to produce them by intensive training schools, it was found that they could not be manufactured on short notice. The extraordinary success of the British and Canadian banks in foreign branch banking indicates the value of long training for the men who are to represent their banks in foreign fields.

He concludes that the failure of many of the American foreign banks established during the War period was due to a great extent to untrained and inexperienced management. It is noteworthy that as the overseas banking systems of other countries grew up, their lack of trained men has often been met by the attraction of officials from the already successful British banks. But the latter have a valuable tradition and a long start. With the development of rapid communications, the importance of choosing a reliable and competent staff is doubtless not so pressing as it was eighty years ago, but the greater familiarity of the foreign branch with local conditions in the less-developed countries still makes inevitable the delegation of heavier responsibilities than would be the case at home.

The possibility of disturbances of public security has a vital bearing upon the business of a bank operating in undeveloped countries, and the degree to which the civil authorities can be relied upon to enforce order in public affairs is often an anxious question for the management. This is particularly the case where the standard of commercial morality is low. In the past, in some countries of South America and the Near East, it was well known that justice could easily be bribed by persons anxious to escape

[1] Phelps, *Foreign Expansion of American Banks*, New York, 1927, p. 164.

from their commercial obligations; in other cases, there were no proper courts of justice at all. Business under these conditions throws much more responsibility upon the local managers, and credit tends to be given much more upon a personal basis, without regard to legal remedies, in order to avoid the risk of costly and probably fruitless law-suits. In the ultimate case, as in China and in parts of the Near East before the War, foreigners pressed for rights of extra-territoriality.

The risk of loss from arbitrary acts of Government has been considerable in some South American countries, as in the Argentine, where in 1876 $18,000 in bullion was forcibly extracted from the Santa Fé branch of the London and River Plate Bank, and the manager thrown into prison; or as in Mexico in 1919, when the Mexican Government suddenly ordered all banks to be liquidated whose reserve was less than their capital; or in Chile, in more recent times, where the revolutionary junta of 1932 ordered the confiscation of all deposits in foreign currency in the Chilean banks. In such cases, diplomatic action must generally be relied upon for redress. But the application of Government authority to enforce private rights in a foreign country often raises large and politically inconvenient issues, and has therefore been in practice, inconsistent, and for business purposes, unreliable.

In the course of its business, the foreign bank working in a country which produces mainly raw materials or one of the great food staples, must usually expect rapid fluctuations in prosperity due to changes in world markets, sudden consequential alterations in the value of goods pledged for loans, marked seasonal variations in business, and expansion and contraction of the national economy with changes in harvests and capital imports, to mention only a few factors. "One-crop" countries, such as Brazil, with coffee, Chile, with nitrate, and Cochin-China, with rice, are an especial danger. In practice, this has had the effect of gradually forcing the successful banks to extend the area of their operations until it covers several raw material regions, whose economic fluctuations may be expected to

occur at different times. The clearest instances of this are to be found in South America.[1]

All overseas banks, as a rule, must expect strong and persistent competition abroad. They must stand up to the local banks, and, since their territory will normally be open to the banks of all countries on equal terms, to competition from all parts of the world as well, some of it perhaps State-aided. In this competition, the foreign banks are not restrained by consideration of forbearance for the sake of the national economic interest, as they might be at home. Unless local banking supervision is strong, therefore, this competition is liable to be very destructive and to reveal elements which are not altogether reassuring from the point of view of local interests. Necessary co-operation in times of financial anxiety is difficult to get, and the normal machinery of banking collaboration, such as Clearing Houses, or a system of exchange of credit information, is absent or inadequate. These disturbing features have been particularly noticed in the case of Egypt, the South American countries, and the Far East.[2] They will not be eradicated by the banks themselves except under extreme pressure, and there is much more to hope for in a better system of banking regulation in these countries.

A very important problem to be faced is that of fluctuating exchanges. This introduces an undesirable speculative element into international business, for which the banks are, in any case, liable to suffer. It also impedes the prompt and regular settlement of international trading transactions,

[1] But the best single instance is the branch network of Barclays Bank and its overseas subsidiaries.

[2] The Caribbean is another likely centre for international banking rivalries (see Table 14). Although these do not seem acute at present, occasional evidence of discord is not lacking. In 1919, on the representations of the (British) Colonial Bank, legislation was introduced in the British West Indies to put American banks there on the same footing as British banks in New York (*Bankers' Magazine*, 1919, Vol. II, p. 519). In 1932, the Royal Bank of Canada, the leading competitor in Haiti of the National City Bank of New York, was fined $350,000 by an American Financial Adviser of the Haitan Government, for failure to stamp certain documents. Evidence before the Finance Committee of the U.S. Senate stated that " Haiti is really a territory of the National City Bank " (quoted in *The Times*, 11/2/32). Cf. Nearing and Freeman, *Dollar Diplomacy*, London, 1926, p. 134.

where merchants, as in some parts of South America for instance,[1] habitually delay taking up foreign bills until they can take advantage of a favourable rate, or default on a technical error in their contracts if the exchange moves against them. But from the point of view of the bank's shareholders, the chief danger is the risk of sudden and unexpected loss falling directly upon their own property. This has been a serious hazard at all times, but special and considerable losses were suffered by the European banks in the East during the fall in the gold value of silver of the 'nineties, and the banks in South America were equally threatened in the last half of the nineteenth century by the wild currency experiments of some of the Governments there. The risk cannot in practice be altogether removed from the shoulders of the banks.

For *exchange* banks, capitalized say in sterling, and depending primarily upon the finance of international trade for the bulk of their business, it is a comparatively easy matter to avoid uncovered exchange risks in day-to-day business. The proceeds of the sterling drafts of exporters bought locally against *disbursements* of the local currency, may be sold to importers against *receipts* of the local currency, a small difference between the rates being the bank's rumuneration for the work involved. If there is not sufficient of either sort of funds, the banks produce an equilibrium in the usual way either by parallel movements in both rates, or by bullion shipments when these become profitable. In no case need a bank incur any exchange risk so far, on the assumption that international trade continues and the bulk of the bills are met each way. But even exchange banks need to make some *long-term* investments, if only on account of the large premises and other fixed capital necessary for their business. It is these which are endangered by exchange movements; and there is no method whatever of safeguarding them against great and sudden appreciation or depreciation in accordance with movements in the exchange.

[1] Cf. Lough, *Banking Opportunities in South America*, U.S. Dept. of Commerce, Special Agents Series, No. 106, 1915, p. 120.

At the same time it should be remembered that the value of the capital assets of a bank or any other going concern abroad, *as stated in the home Balance Sheet*, may not represent the true market value, and is thus of only indirect concern to the owners at home. Their main interest will be in the bank's dividend-earning capacity in the home currency. And currency depreciation, though it may cause an adverse exchange and so reduce the book value in sterling of capital assets abroad, may conceivably increase their dividend-paying capacity to what it was before. This, however, as experience in the Far East and South America certainly shows, is not commonly the case. Adverse exchange movements have more often reduced the book value of capital assets abroad, and also reduced their sterling earning power in similar proportions.

The same considerations apply to banks which, in addition to exchange business, also undertake short- or long-term lending operations in an unstable currency. To the extent that their loans can be called up and the proceeds transferred home quickly enough to avoid a part of the exchange loss, such banks obtain a partial immunity at the expense of business and connections perhaps irretrievably lost. But clearly most of the lending business by foreign banks overseas is not of this character; so that the banks may be caught by sudden and violent movements in the exchange, as when a strain is thrown on the international balance of payments by the failure of some great staple crop, or they may find themselves helpless before a long-period depreciation, with old loans falling in, and new ones being made at a rate of exchange far removed from "normal." In such cases, unless the banks refuse to do business at all except on a gold basis (as was the practice with some concerns in South America before 1914), the only protective method available is the creation of large exchange reserves. The adoption of the first alternative yields naturally a very restricted business; the second is therefore commonly preferred. Capitalization of the bank in terms of the foreign currency does not really present a third alternative, in spite of many beliefs to the contrary. The majority of the owners

of such institutions as the Hongkong Bank, capitalized in silver dollars, have been Europeans, resident in, or hoping ultimately to be resident in, some gold standard country. Their main interest is, as before, in the gold value of dividend-payments. The fact of their capital being stated in the Balance Sheet in terms of silver dollars makes no difference whatever to its sterling earning capacity. Such banks can claim no unique exemption from exchange fluctuations, any more than their sterling competitors.

Even apart from exchange risks, the ordinary cash reserves of overseas banks have in any case to be unusually high. Economic and political instability, the great distance of the branches from the Head Office, and the possibility of unexpected calls for money in the ordinary course of business, as for example to meet large telegraphic transfers, are some of the important reasons for this. And the wider the area over which the bank spreads its branches, the larger in general will have to be the aggregate reserves, and the reserves of each branch, since a disturbance at any one point is liable to cause a run on all the branches, wherever situated. But for exchange risks there needs to be a special reserve, to the size of which experience is the only practical, if sometimes misleading guide. The large allocations of the Hongkong Bank are typical of this practice; it represents a useful protective device, but by no means an impregnable safeguard.

The particular method to be used in forming the foreign connections presents a technical problem of some difficulty. In the days of private banks, the most obvious basis for international relationships was the celebrated device of the international banking family, of which the Rothschilds are the classic example, their firms at London, Paris, Naples, Vienna and Frankfurt corresponding to the five main branches of Meyer Amschel's family. But with few exceptions, these families are no longer so important as formerly, as their combined means, even in the best known cases, are insufficient for the gigantic scale of modern banking business. In the case of joint stock banks, the method used in practice depends on local conditions, and the capital available.

British experience since the earliest years has consistently favoured full branches in the country concerned and a controlling Head Office in the home centre, although in Austria and Turkey, for example, this arrangement had to be modified due to pressure from the Governments concerned. The Anglo-Austrian Bank and the Imperial Ottoman had their Head Offices in Vienna and Constantinople, and the English shareholders in each case had to content themselves with representation through a London Committee. But there are several other possible methods.

For joint stock banks, the most obvious way of establishing foreign connections is by means of foreign agencies. But in some ways, this is the least satisfactory method, as the home bank has to safeguard itself by refusing responsibility for the information and services rendered by the correspondent. A small and irregular draft, collection and acceptance business is probably best handled in this way, if the agent is long established and has good connections locally. The home bank then escapes the risk and expense of maintaining branches abroad, and may in fact benefit from the ventures of its home competitors in this direction. The Midland Bank, for instance, with no foreign branches, is reported to have benefited much from the foreign branch activities of its English competitors; the natural reaction of bankers abroad, who felt themselves menaced by English competition on their own ground, was to transfer their correspondent relations and their London accounts to the Midland Bank.

If the volume of business is large, agency relationships may be much strengthened by means of a representative of the home bank resident in the foreign centre. In the period of American banking expansion abroad after the War, this device was much used,[1] and at present, most of the large English domestic banks have resident representatives in New York. The representative's office has usually wide

[1] e.g. the Irving Bank—Columbia Trust Co. of New York had representatives in 1916 in London, Paris, Berlin, Mexico and Bombay. The Paris representative of the National City Bank of New York had in 1921 a seat *in the offices* of the Banque de Paris et des Pays Bas. Cf. Phelps, *op. cit.*, p. 27.

and indefinite duties, but never accepts deposits or undertakes business on its own account. It settles quickly by personal contact difficulties arising in the course of business between the two centres which might otherwise involve months of correspondence. It sends credit information and reports on local business conditions to the home bank, assists home customers travelling abroad, and generally helps to make the agency relationship a harmonious and profitable one.

As business increases further, it is generally found that the home bank can secure its execution abroad more in accord with its own wishes, and on cheaper terms if it becomes a part owner of the correspondent bank. The procedure adopted may take the form of a syndicate participation to *create* the foreign auxiliary, as when the International Acceptance Bank, the French American Banking Corporation, the Banca Commerciale Italiana, and the Banque d'Orient were founded by international banking consortiums, and the Deutsche Asiatische and the Bank of Central and South America by German and American national groups respectively.[1] A minority interest in this connection is generally called an affiliation, a controlling interest a *commandite*. The German banks in the early days of the expansion of German foreign trade made many affiliations because of their limited means, and of the large number of world trade centres with which they wished connections. The *commandite* method was adopted later, the foreign firms selected being usually of German origin. Part ownership of their capital could be secured without any preliminary expenses or undesirable publicity, no infraction of foreign branch banking laws would be involved, and any special taxation on foreign banks would be avoided. Thus, in 1854, the Darmstadter Bank bought a *commandite* interest in G. vom Baur & Co. of New York. In London, the *commandite* of the Deutsche Bank was the German Bank of London, and of the Commerz und Diskonto Bank of Hamburg, the London and Hanseatic. More recently, in

[1] Phelps, p. 158, gives the American national group, and Strasser, pp. 112–13, the German. The others are in Caillez, *op. cit.*

America, the ill-fated Mercantile Bank of the Americas was organized in New York in 1915 by Brown Bros. and Seligmans to acquire stockholdings in *commandite* banks in the South American republics, and from 1922–5, the National City Bank of New York was represented in Haiti by a *commandite*—the Banque Nationale de la Republique.

The *commandite* method has serious drawbacks which proved an insuperable obstacle to its extension in most cases, and led to its abandonment by several of the German banks which had most favoured it.[1] Although it reduces the risks of foreign banking, since there is no direct liability for the operations abroad, and total losses can be limited to the shareholding, the *commandite* naturally does not benefit as it might if the parent bank were fully responsible for it. And since it retains its existing management and organization, it is generally much less responsive to control from abroad than a branch would be. German experience of this method has included some not inconsiderable losses.

From the point of view of technical efficiency, there is no question that a full branch in the country concerned is the best solution. Although in British experience, a branch bank working in a new and undeveloped country is apt to prove a rather rigid form of organization, it has many counter-balancing advantages. The home bank can now assume full responsibility in financing foreign trade, from the production of the goods to their final delivery abroad. The branch will not be suspected of divulging trade secrets, at least to foreigners. It will always be on the look out for business opportunities for its parent bank, a service which an agent could not possibly perform for its hundreds of correspondents throughout the world. And the credit information it supplies will usually be more specific, more reliable, and as extensive as the parent office wishes. Unless there is some specially unfavourable condition, such as heavy taxation, or difficulties of legal recognition or of incorporation, the branch method is normally preferred where the business is at all large.

[1] Cf. Riesser, *The German Great Banks*, pp. 108, 684; Weber, *Depositenbanken, Munchen*, 1922, p. 122.

(*b*) Legal Difficulties

On general principles, it seems reasonable that the enormous and unique powers which modern banks have over the national economy ought not to be exercised except under stringent regulations made in the interests of the State in which the banks happen to be operating; and since all the related activities of foreign banks, both in and outside the country, cannot be so easily controlled by such regulations as those of national banks, the tendency in most countries is to restrict the entry of incorporated foreign banks, or to permit them to be established for limited kinds of business only. In the extreme case, as in Norway and Finland, foreign companies are altogether prohibited from conducting a banking business by means of branches. A typical example of a limited right of entry is afforded in New York State, where foreign banks must secure a licence from the Superintendent of Banks before beginning business, and even then may not receive deposits of money, security, or other personal property. Only in economically backward countries, of which the best example is China, is there no special law applying to foreign banks or foreign joint stock companies, and entry, therefore, virtually unrestricted.

Public opinion in many countries is strongly in favour of legal restriction—partly on account of a general, nationalistic dislike of foreign intervention in the economic sphere, and partly because of a kind of instinctive Protectionism —the feeling that the prosperous foreign concern is employing foreign labour, capital and enterprise to do business which apparently could be done by the home banks just as well. This attitude was common in the City of London before the War, but is still rather marked in France and Spain, and many of the typical objections which follow, originate from it. In the first place, it is held that the foreign bank must not be allowed to *borrow* in the home monetary centres without some local supervision of the uses to which the money is put. What of deposits, for example, which it may collect through its branches and redistribute abroad in some country or in some way which

may be inimical to the national interest? The French public, it must be admitted, have reason for a somewhat natural suspicion on this score, since the very low money rates in France before the War were a great attraction to foreign bankers from all parts of the world—some of them not of the most reputable class. Many of these banks are now admitted to have been inadequately capitalized and in other respects a source of weakness to the money market. The practice of the Russian banks in Paris in pre-War days, of arranging acceptance credits against Russian bonds and Russian bills of exchange, is cited, for instance, as an abuse of the privileges of the money market by foreign banks.[1] Its counterpart in London is the oft-repeated assertion that the German banks in the City before 1914 used to help finance German industry with long-term loans by means of short-term London acceptances constantly renewed.[2] Or that Russian bills in payment for German exports to Russia, were discounted by German banks and sent to London to be placed *en pension* against drawing credits.[3]

But if the foreign banks may not *borrow* without possible damage to the national economy through the misdirection of the funds, neither may they *lend* without what seem to be equally strong reasons being urged against their activities in this direction. Short-term funds are liable to set up acute exchange complications in their instant flight for the better security or the extra half per cent to be had elsewhere, and long-term loans are much objected to, in economically subordinate countries especially, on the ground of the possibility of harmful interference in domestic economic affairs through the foreigner's control of the purse-strings. The attitude on the last point gains some support from the experience of backward countries during the era of European capital exports on the grand scale in the nineteenth century; but it is common amongst all nations, developed [4] and undeveloped.

[1] Duforcq-Lagelouse, *Les Banques Etrangères en France*, Paris, 1922, p. 97.
[2] Cf. Foxwell, *Papers on Current Finance*, London, p. 97.
[3] *Economist*, 5 Oct., 1918.
[4] Even in France, for example, " la vraie fonction des banques étrangères en France doit donc etre celle de prêteur de capitaux. . . . Vouloir, sous

Apart from these considerations, foreign banks are very commonly suspected of giving preferential business treatment to their own nationals. This causes them to be disliked in every country but their own, and may in practice ultimately have the effect of limiting their connections to business men of their own nationality.

In deference to these grievances, real or imagined, against the foreign banks, most countries place restrictions on their corporate activities through legislation. Such legislation has, at the outset, the difficult task of defining, explicitly or otherwise, exactly what constitutes a foreign bank; and since many legal systems do not even furnish an explicit definition of a bank at all, this difficulty is, in practice, often an acute one. Clearly, the nationality of a bank could be determined by reference to a large number of reasonable criteria, e.g. its sphere of action, according to which the Anglo-Egyptian Bank, controlled in England, would be called Egyptian; or its Head Office, according to which the Ottoman Bank, controlled from Paris, would be Turkish; or the nationality of the majority of its proprietors, which would make the Ionian Bank, working in Greece, English, and the Banque Allard, working in Paris before the War, German.[1] Even the nationality of a minority of the shareholders, who were in real control of the concern, might be accepted. This would have made the Banca Commerciale Italiana at the time of its formation, German.[2] Most countries solve these legal difficulties in the same arbitrary manner; a foreign bank is regarded as having the nationality of its *Siège Social*; and on this basis, restrictions of various kinds are imposed on its activities. Details of these restric-

le couvert de ces opérations, exercer une véritable mainmise sur les entreprises industrielles où commerciales françaises qui ont recours à leurs services, serait pour les banques étrangères heurter nos sentiments et provoquer des restrictions à la liberté dont elles jouissent."—Duforcq-Lagelouse, *op. cit.*, p. 98.

[1] The kind of business done would be an admissible criterion, as in the case of a Rotterdam concern which was held by an Algerian Court to be an enemy of the French nation during the War, because it was selling German goods. Cf. Barazetti, *Régime des Banques Etrangères*, Paris, 1923, p. 14.

[2] Cf. Foxwell, *op. cit.* In 1914, of the £5,200,000 of capital of the Banca Commerciale, only £180,000 was in German names.

tions have been collected on various occasions, notably for the International Financial Conference at Brussels in 1920,[1] and at other subsequent dates privately, and some typical examples of actual practice are given below.

Of the European countries, Great Britain, Belgium, Switzerland, and Holland, permit free entry of foreign banks, but the policy of the chief European Governments is, on the whole, to exercise a rather strict supervision, especially in recent years. In some cases, as in Italy and Austria, permission to operate may be made conditional upon the grant by the country of origin of the foreign bank of reciprocal privileges. In the majority of cases, a special authorization must be obtained from the relevant Government Department, the statutes of the bank must be registered, and periodical returns made of the state of the business. Taxes are then imposed, as in Italy, on the amount of the capital employed in the country, or, as in Spain, on the amount of the capital employed in the country *and* on the total capital. The particular Spanish fiscal measures (of 1920) can, in fact, only be regarded as penal, and since they contributed directly to the withdrawal of several British and other foreign banks from the country, they are worthy of special mention.

Their origin seems to have been in the "widespread enthusiasm for the protection of national industries, and the policy of freeing the key industries of the country from foreign influence and control."[2] All foreign companies were first of all taxed annually at the rate of 3 per cent on their Spanish capital, this being deemed to be not less than one-tenth of the whole. Foreign banks paid in addition 1 per mille on their *total* capital, and a further 2 per mille on the Spanish capital (not less than one-tenth of the whole). The determination of exactly how much of the capital of a foreign bank was in Spain rested with the "Jurado de

[1] League of Nations Publications, E.F.S. 80, A. 46.

[2] *Recent Tax Legislation Affecting Foreign Banks in Spain*, Federal Reserve Bulletin, July 1920. It is noteworthy that after the passage of this legislation, there occurred the financial panic of 1920, in which the foreign banks formed a guarantee fund to save the Banco de Tarrasa, whose weakness had precipitated the crisis.

Utilidades," an official Committee of the Treasury including two Spanish bankers amongst its members. Further taxation might be imposed on foreign companies by the Treasury, if it was found that Spanish companies operating abroad had in any case to pay higher taxation than that now levied on foreign companies in Spain. The definition of a foreign bank, by a subsequent law of June, 1922, is extraordinarily wide, and includes those institutions which are " notoriously in direct dependence upon a foreign bank or foreign enterprise." [1]

An important restriction occurs where foreign banks are not allowed to rediscount with the Central Bank of the country where they are working. This privilege is expressly conceded in France, but was withheld in Holland until 1927,[2] and in Spain, the foreign banks may rediscount at the Bank of Spain only on payment of a penalty rate 1 per cent higher than that charged to Spanish banks.[3] In London, rediscounting facilities would not be granted by the Bank of England, which does not accept the accounts of foreign commercial banks; although bills bearing the acceptances of foreign banks would probably be taken from third parties, if the bank were an important one.

A common and extremely burdensome restriction prescribes an arbitrary allocation for the capital and deposits of foreign banks. In Czecho-Slovakia for instance, the banks must reserve for their Czech branches an amount of their total capital proportionate to the business of the branches, and must invest it in the country; deposits collected in Czecho-Slovakia must also be invested there. In countries where foreigners are excluded from the Bourse, there is another serious deterrent to foreign banking business. A special case of this occurred in Holland during the War, where the Amsterdam Vereenigung voor den Effectenhandel decided in December, 1916, to exclude foreigners from the Bourse.[4] This inflicted a lasting injury upon the German banks in Amsterdam, which did a great deal of security

[1] Barazetti, *op. cit.*, p. 47.
[2] *The Times*, 5 Sept., 1927.
[3] " Banking in Spain," from *The Banker*, June, 1933.
[4] Strasser, *Die Deutschen Banken im Ausland*, München, 1925, p. 51.

business through their Dutch branches during and after the War, in substitution for their former activities in London.

In the United States the situation is quite peculiar. Owing to the extraordinary losses inflicted on the public during the free banking era of the early nineteenth century, the various States began to legislate for restrictions upon outside banks almost as soon as they framed any banking regulations at all, and the result has been that not only do these restrictions apply to the banking enterprises of other States in the Union, but they apply to those of foreign countries as well. The tendency to discourage all outside banks, whatever their origin, has been strengthened considerably by the opposition in many States to the very principles of branch banking, so that, on the whole, the United States is one of the countries most hostile to foreign banking penetration. This hostility is increased, rather than diminished, by the fact (well appreciated in the United States) that the Federal and State Governments have far more legal control over their local banks than is the case in the European countries whose banks seek operating privileges in America. In twenty States, the law limits the conduct of banking business specifically, or by implication, to locally organized corporations. In California, foreign banks permitted to operate after 1917 were confined to the business of buying and selling, and paying and collecting bills, issuing letters of credit, lending money, and transmitting money by cable, cheque or otherwise.[1] In Illinois, the further entry of foreign banks was prohibited altogether in 1920. In Oregon, the foreign bank must maintain in the State an amount of capital equal to 10 per cent of its deposit liabilities there. Although only this amount may be advertised locally as the capital of the bank, the whole capital of the parent institution is nevertheless liable for all the obligations of the branch. In Washington, the buying and selling of exchange, securities, coin or bullion, is permitted to a foreign corporation by an Act of 1919 on con-

[1] Report of the American Section to the International Chamber of Commerce, November, 1923, on *Laws and Practices Affecting the Establishment of Foreign Branches of Banks.*

dition that " it will not engage in banking or trust business in the State."

In New York State, in which the European banker is almost exclusively interested, the restrictions are severe. Under the Banking Law of 1914, no banking institution created outside New York State may establish a branch bank in the State.[1] But it may establish an agency, with power to do a very limited business, excluding the issue of notes, the receiving of deposits, and the transaction of savings business, and trust company business. The agency may not hold real property, secured through the foreclosure of a mortgage or by devise, for more than five years, unless its Head Office is in another State, or in Canada or Mexico.[2] The formalities prior to establishment include an application to the Superintendent of Banks, who has complete discretion to refuse those whose acceptance would not be in the public interest. There is an annual licence fee of $250, and a minimum capital requirement of $250,000. The foreign agencies have to submit to the usual conditions as to frequent inspections by the Superintendent, and closure, if he is convinced that the agency is conducting its business in an unsafe manner.

In spite of these restrictions, 21 banks established outside the United States maintained agencies in New York City in 1933. Ten other foreign banks avoided them by maintaining resident representatives, who distribute business to the accredited New York agents of their home banks; and 4 others had founded local trust companies which have equal powers with the New York banks, but are owned abroad. On the whole, there seems to be no clear majority opinion in any State in favour of abolishing the restrictions that exist. A liberalizing measure passed the New York Legislature in 1920, but was vetoed by the Governor on the ground that it had been insufficiently considered. In addition, the Superintendent of Banks reported that it gave insufficient protection to depositors and was unfair to

[1] This does not, of course, exclude banks with over-riding Federal charters, e.g. the Federal Reserve Banks and the National Banks.

[2] Phelps, *The Foreign Expansion of American Banks*, New York, 1927, p. 198.

domestic banks. A similar measure failed in 1923 through lack of support from the Senate and from the Superintendent. Any attempt by the *Federal* Government to allow complete freedom for the establishment of foreign branch banks in the States as a whole would be sure to be unpopular whilst the present restrictions on nation-wide branch banking are still imposed. The small bankers, who are still very influential, would certainly oppose it from fear of further competition from great European banks, offering perhaps special attractions to certain national sections of the immigrant population. And equality of treatment is a scarcely less practicable alternative, as it would give rise to insurmountable difficulties owing to the elaborate inspection system created by American banking law. The State banking examiners, for example, would want to examine the Head Office of the foreign bank as well as its local branch, and if this proved impossible in practice, the foreign bank would clearly be at a decided advantage over the local institutions, and its inspection would be of doubtful use.

In the newer South American countries, the field for foreign branch bank expansion is comparatively free, on account of the need of these countries for capital. In the Argentine Republic and Chile, foreign and domestic banks are on the whole treated equally, though in the former country, restrictive measures are constantly advocated [1] as a reprisal against countries like the United States, which do not grant favourable conditions to Argentine banks. In Brazil, special Government authority is required, and this may grant full or limited powers, according to the privileges which would be enjoyed by a Brazilian bank operating abroad. The decree of 1921 [2] imposes a minimum capital requirement of 9,000 contos of reis, with the additional condition that at least half of the bank staff employed in Brazil must be of Brazilian nationality. The establishment of

[1] Dr. Subercaseaux seems to advocate these in Chile also, and complains of the lack of reciprocity in France, where the project of a Paris agency for the Banco de Chile had to be given up.—*Monetary and Banking Policy of Chile*, London, 1922, p. 134.

[2] Phelps, *op. cit.*, p. 187.

further branches in Brazil needs specific Government authority in each case. Taxes must be paid annually to the Government for the expenses of bank regulation. Deposits in proportion to the amount of its exchange business (in which the foreign banks are very largely interested) must be made by each bank, and daily returns furnished of such business.[1]

Special protection is sought for the Brazilian depositors in foreign banks by the provision that local creditors shall have as security the capital of the whole concern, not only that of its Brazilian branches. Foreign creditors, however, may not recover from the Brazilian branches in case of failure of the parent concern; and in any case, Brazilian creditors of a failed foreign bank have preference over all others. It is worth noting that this kind of provision has sometimes proved an unpleasant surprise to promoters of large overseas banks which have been liquidated on account of heavy losses. In 1891, for instance, during the liquidation of the English Bank of the River Plate, it transpired that local creditors in the Argentine and Uruguay were given the preference by the law of these countries over other foreign creditors.

Through legislative restrictions, the difficulties of bank expansion in foreign countries seem to increase.[2] The restrictions were no doubt multiplied just after the War, when many countries were then invaded by banks from the United States, where the conditions for the establishment of any foreign banks were notoriously unfavourable. But it seems inevitable that new banks, at least, will have to submit to more and more restrictions abroad with the natural growth of more comprehensive banking legislation in the countries at present undeveloped; and that even in the older countries, where the tendency is in favour of more strict supervision, foreign banks must certainly expect

[1] These exchange restrictions have been considerably tightened up in recent years, in view of the depreciation in the Brazilian reis. The Bank of Brazil has at present a practical monopoly of the business.

[2] London is a noteworthy exception. Even the German banks were permitted to reopen here in 1926 by the Trading with the Enemy (Amendment) Act of 1918. The Anglo-German Commercial Treaty of 1925 in the event ante-dated this provision one year.

to be placed under the same disabilities as domestic concerns. The most that can be hoped is not the attainment of "reciprocity" for the international banks of all nations—differences of legal systems would alone make reciprocal privileges impossible—but the concession of equality of treatment with the domestic banks. At present, this is a long way from achievement.

(c) Political Difficulties

Before the War, in the less-developed countries, perhaps under the vague tutelage of one or several of the European Powers, foreign banks came to be established by means of special concessions from the local Governments concerned, granting various sorts of exclusive privileges, such as that of note issue, or of management of the Government accounts. These concessions were essential in many cases because the business could not have been successfully undertaken without them, but they were often made the subject of bitter wrangles amongst the interested European banks, who knew that their significance went much deeper than the bare terms of the agreement indicated, and who would usually claim the support of their respective Governments to ensure success in the bargaining. Alternatively, the banks themselves would be stimulated to forward action by their Governments, fearful lest other nations should stake too large a claim on the economic resources of undeveloped countries. In certain instances, therefore, international bank expansion became a political question. Government assistance of one sort or another was invoked, for instance, in the case of the Ottoman Bank, the Imperial Bank of Persia, and the London Bank of Tunis, on the general ground that these banks, as vehicles for the export of British capital, represented not only the expansion of British economic enterprise but also of British political influence. The ultimate object of official support was generally, either to ensure that the proper amount of influence was brought to bear upon the external borrowing policy of the country concerned, or else to ensure that no other national interest exercised it.

In the capital-exporting countries generally, Government encouragement to the overseas banks has varied with the interest it has taken in the foreign investments of its nationals. The support given to the German overseas banks by their Government is supposed to have been very powerful [1] and in certain of them the Government was directly interested. The Deutsche-Asiatische Bank had a semi-official status before the War ; three-quarters of its directors had to reside in Germany, and the appointment of the Chairman was subject to the confirmation of the Emperor. The syndicate which founded it was formed at the suggestion of the Government, and it included the State Bank of Prussia. " Behind the Deutsche-Asiatische Bank, both in its individual efforts, and as a member of the International Consortium, the German Government stood, coming to the fore when needed, and encouraging its determined and successful efforts to share substantially in all Chinese financing." [2] In the Levant, Government pressure was admittedly exercised to make the banks serve the ends of German economic penetration.[3] The Deutsche-Orient Bank in 1907, for instance, was induced by the Government to accept a concession for the opening of a branch in Persia ; and the expedition sent out to Persia in 1910 by the Deutsche Bank to study railway possibilities was again officially supported.[4] Throughout the whole of the negotiations for the Bagdad Railway concession the Deutsche Bank in Constantinople was supported by the German Ambassador there.[5]

The French Government has lent its official aid in the same way. In 1860, the Comptoir National d'Escompte, first of all the French banks to enter the foreign field directly, was subjected to a Government connection by the decree which obliged it to seek the consent of the Ministry of

[1] Cf. Feis, *Europe—the World's Banker*, New Haven, 1930, Chap. III ; Caillez, *L'Organization du Crédit au Commerce Exterieur*, Paris, 1923, pp. 86–7 ; and references to the *influence occulte* in Diouritch, *L'Expansion des Banques Allemandes*, Paris, 1909, p. 168.

[2] Feis, *op. cit.*, p. 179.

[3] Cf. Strasser, *op. cit.*, p. 29.

[4] Feis, *op. cit.*, p. 372.

[5] Cf. E. M. Earle, *Turkey, the Great Powers, and the Bagdad Railway*, London, 1923, Chap. IV.

Finance to the opening of its branches in foreign countries.[1] The Banque de l'Indo-Chine has been closely connected with the French Government since its foundation as a French colonial bank for Indo-China in 1875; this connection was not disturbed in 1888, when the bank was allowed to open branches outside the colonies, notably in British India. The ill-fated Banque Industrielle de Chine was also started with official encouragement and in 1921 was liquidated under Government supervision for the sake of the maintenance of French prestige in the East. The Imperial Ottoman Bank, finally, was, after its reorganization in 1863, the more or less willing co-operator of the French Foreign Office in diplomatic negotiations with Turkey.[2] Thus, although the French overseas banks are less important in the banking system than in the case of most other advanced countries, their connection with the Government, especially in negotiations for foreign loans, was as close as the connection of the French domestic banks, notoriously subject to Government pressure on all important occasions. The arrangements were strengthened by the fact that the banks were expected to reserve places on their directorates for important diplomatic and Treasury personages.[3]

Important instances of the system are not confined to Western Europe. Before the War, the Russo-Asiatic Bank was completely under the control of the Cabinet at St. Petersburg. The election of President, Vice-President, and directors of the Yokohama Specie Bank in Japan has to be sanctioned by the Ministry of Finance, and only Japanese subjects may become shareholders.[4] One of the general characteristics of overseas banking expansion from all countries in fact, has been the more or less clearly defined hint of Government support which they carry abroad with them, especially in backward countries. No one country can be said to have created this system, but obviously one

[1] Kaufman, *La Banque en France*, Paris, 1914, p. 209.
[2] Blaisdell, *European Financial Control in the Ottoman Empire*, New York, 1931, pp. 230–1; Earle, *op. cit.*, pp. 249–50.
[3] Feis, *op. cit.*, p. 159.
[4] Sakatani, *Banking System of Japan*, U.S. National Monetary Commission, Document 586.

could not adopt it without all the others doing so. Thus the Hongkong and Shanghai Banking Corporation has had to speak on occasions with the voice of the British Government in loan negotiations with China, and thus the Imperial Ottoman Bank has represented French official views in similar transactions with Turkey. Politically convenient though this system may have been, it has proved on many occasions to be somewhat of an economic incubus, as when Sir Ernest Cassel's National Bank of Turkey was requested by the British Government in 1910 not to go forward with a loan to Turkey which had seemed commercially advantageous, and when the German banks on the same occasion were told by the Kaiser to supply the money on terms not agreeable to them. German financial participation in Italy, was also against the wishes of the banks [1]; and the participation of the Eastern Bank in the "pirate" Consortium for profitable Chinese loans, was severely frowned upon and ultimately stopped by the British Government.

In England, official support of the overseas banks has been less marked on the whole, though in cases of obvious and immediate need, as in the dispute of the London and River Plate Bank with the Argentine Government in 1876, it has been prompt and energetic. In many cases, for instance, British banks abroad have had to stand up unaided against State-subsidized competition from foreign banks created for a political object; and the banks have sometimes had cause for complaint in this, as, for instance, when the National Bank of India and the Chartered Bank were driven out of their German business connection in Zanzibar by the Deutsche Ost-Afrika Bank,[2] a German colonial institution enjoying Government support—or when the Bank of British West Africa was forestalled in certain parts of West Africa by the specific and opportune foundation in 1905 of the Deutsche West-Afrikanische Bank, also with special privileges obtained from the Government. But whatever may be the exact object or degree of official support accorded, it is everywhere true that no Government would remain indifferent to the difficulties in a foreign

[1] Diouritch, *op. cit.*, p. 179. [2] Caillez, *op. cit.*, p. 80.

country of an institution owned by its own nationals, of the size and importance of some of the present-day international banks. And in the undeveloped countries, these difficulties are very likely to be bound up with international political rivalries, with the supporting Governments in the background. Naturally this immensely complicates the commercial problems of the international banks in such countries, for in exchange for Government aid against their officially supported competitors, they are obliged to sacrifice some of their economic independence.

The problems facing the international banks are thus seen to be somewhat different in kind from those typical of domestic banking experience. That they are serious has been proved time and again by the long and dismal story of the abortive projects and costly failures of the last century. But the experience of some of the great British banks shows that they are not insoluble. A short sketch of the history of the more important of these institutions since their origin, will, in the following pages, attempt to show this.

CHAPTER III

A PREMATURE INVASION: THE BANKING MANIA SPREADS TO EUROPE

AT the present time, when the extensive connections of the British banking system in the European countries depend on the long-awaited turn in world trade to prove their usefulness, a review of the attempts made to build up these connections originally, when the difficulties were considerably less obvious than they are now, has a special interest.

A hundred years ago the number of London banks with direct representation abroad was small. The English banking system itself was then in the throes of important changes, due to the growing popularity of the joint stock form of incorporation, and conditions abroad were nowhere very inviting. In the 'thirties of the nineteenth century, the first few cautious attempts at joint stock banking expansion overseas were represented by the foundation in London of a few Anglo-*Colonial* banks, of which the Bank of Australasia of 1835, the Colonial Bank of 1836, and the Bank of British North America of 1840, were the outstanding examples. Developments outside the British Empire were slow. By 1850, there was a considerable British investment in certain American banks,[1] and a few private banking firms of British nationality, but mostly of very small means, were scattered over France, Spain, Italy, Greece and America.[2]

[1] Three-quarters of the aggregate capital of the Bank of the United States, the Bank of Louisiana, the Bank of New Orleans, the New Orleans City Bank, the Morris Canal and Banking Company, and the New Orleans Canal and Banking Company, was stated to be British. Cf. W. F. Spackman, *Statistical Tables of the Agriculture, etc., of the United Kingdom*, London, 1843.

[2] An official *List of British Mercantile Agents Abroad* for 1848 (F.O. 83/111) mentions 4 British private bankers in Paris, 4 in Rome, 7 in Alexandria, 2 in New York, and one each in Madrid, Genoa, Florence, Venice, Patras, Mexico and Rio.

So far as the Anglo-European banks are concerned, the boom period came only in the late 'fifties and early 'sixties.

But when it did come, it reached extraordinary proportions. In 1863, when the boom had gathered full impetus, the *Bankers' Magazine* published with somewhat ponderous sarcasm, a prospectus[1] of the "North and South Poles Bank," whose Board was made up of directors of the Universal Paupers' Savings Bank, the Unnecessary Insurance Co., the Old Negroes Bank of Brothers, the Music Halls Improvement Association, and so forth; and whose notes were redeemable in all parts of the habitable globe. "When the vast population comprised in the space between the North Pole on the one side and the South Pole on the other is considered, it is at once evident that the present banking system is totally inadequate to meet the claims made upon it." So ran the Prospectus; it was almost prophetic. Before the crash of 1866 came, it would have been hard to find an inhabited area anywhere in the world, apart from certain of the lesser-known Latin-American States, for which a British joint stock bank was not projected, or in active operation. Of course, some of these promotions were no more seriously intended than the prospectus noted above, and in fact, a number of companies were started and wound up for the benefit of lawyers, who received a large share of the expenses, or were registered merely in order to lay first claim to high-sounding titles likely to come into real use later.[2] More than half of all the banking and financial promotions from 1856 to 1865 proved completely abortive; and over one quarter of the effective schemes became insolvent within five years. Of the Anglo-European banks, only a small proportion got beyond the prospectus stage, fewer stood up before the panic of 1866,[3] and only two of the original brigade lasted out the century.

These depressing results must be put down largely to

[1] 1863, p. 168.

[2] e.g. the "Anglo-Russian Bank Ltd.," of 1864, quoted by Shannon, "The first Five Thousand Limited Companies," *Economic History*, Jan., 1932.

[3] Table 4 exhibits the behaviour of certain bank shares in the crisis.

the coincidence of the passage of the new, loosely-framed Limited Companies Acts, with a speculative boom in new securities. But it certainly seems as if the nearness of the European countries, and the similarity of their economic development to the British, encouraged the formation of many more feeble projects for this part of the world than for any other. Of course the growth of international trade anticipated from the gradual extension of the Cobden Treaties, was often a substantial and tempting bait. Moreover, the American Civil War had had the effect of temporarily diverting the stream of British capital from the United States to stable and settled countries somewhat nearer home.

The continental banking systems themselves were still in an early stage of development in comparison with the English. The French joint stock banks, such as the Crédit Lyonnais, were only just beginning to extend their branches throughout the country, and the "raw and variegated banking system," [1] of Germany had not yet taken its final shape, with the foundation of the great Deutsche Bank and the Dresdner Bank still to come in 1870 and 1872 respectively. The joint stock form of company organization was still little exploited on the Continent, except in Belgium, although the legal forms take their origin from the French Commercial Code of 1807. The *société anonyme* remained notably rare in France until 1867–8, when individual authorization for each company was abolished. Meantime, however, Belgian limited companies were given free business access to France in 1857, and the same privilege was extended to English companies in 1862. Not until 1870–2 was a series of laws passed in Germany which freed limited companies throughout the country from the necessity of individual authorization.

Amongst the first of the schemes for British banks in Europe at this time were those projected for France, of which the London and Paris Joint Stock Bank began the series. It was founded in November, 1855, a few months

[1] Clapham, *Economic Development of France and Germany*, Cambridge, 1928, p. 390.

after the successful flotation of the City Bank and the Bank of London, whose shares were then at a premium, and its object, according to the prospectus, was "to extend the English system of joint stock banking to the Continent by opening a branch bank or agencies in Paris" to take deposits and discount bills. The bank was duly chartered under the Act of 1844, but the directors showed some hesitation in calling up the £40 on each share necessary before the concern could start business,[1] and rumours began to be heard that the scheme was not in favour in Paris.[2] These seem to have had the usual proportion of truth in them, for by September, when money market conditions had become definitely unfavourable, and the bank's shares stood at £8 discount, the directors accepted a shareholders' resolution to wind up the concern. There is not much question that the Royal British and the Newcastle Bank revelations seriously damaged the bank's reputation in Paris.[3] Historically, its chief claim to fame is that it set a discreditable fashion for many later projects to spend very large sums in promotion expenses before business was ever begun. The salaries and expenses of the London and Paris Bank directors amounted to £14,422, and the bank did no business whatever.

The next attempt, the Union Bank of England and France of 1862, resulted in even worse losses. Only £125,000 of the nominal capital of £1 million was called up, and the shareholders resisted further calls in view of unfavourable rumours. The Union Bank tried to save itself by a last-minute amalgamation with another small concern, the English, Belgian and Netherlands Bank, and reincorporated under the high-sounding name of "The European Bank Ltd.," with a nominal capital of £2 millions this time, of which less than 25 per cent was then paid up. It opened branches at Paris, Marseilles, Amsterdam and Rotterdam, and paid a dividend of 16 per cent in 1864. But 1865 produced only 7 per cent,

[1] 7 and 8 Vict., c. 113, s. V.
[2] Cf. *The Times*, 28 April, 1856.
[3] Particularly as the directors had advertised in France that the English system of joint stock banking was "such as to preclude the possibility of risk or loss" (see Annual Report, 1856). Moreover, the directors had attempted to sell the bank to the Royal British.

even after the absorption of the London, Birmingham and South Staffordshire Bank; and the whole unwieldy and hastily improvised organization gave way before the crisis of 1866. Nearly £250,000 of a paid-up capital of £644,490 had been lent to two foreign concerns against landed property in France and the Dutch East Indies, and there was a suggestion [1] that after the stoppage, numbers of shares had been transferred to men of straw so that the original holders could escape the large uncalled liability.[2] The whole episode left Anglo-Continental banks in very bad odour in the City, which received periodical and disappointing details of the liquidation of this concern up to the time of the Franco-Prussian War.

The Continental Bank Corporation of 1863 exhibits the same characteristics of weakness. It was begun by a financial group of which the important members were two directors of the National Provincial Bank, and T. H. Gladstone (whose firm in Liverpool shortly afterwards went bankrupt) of the London and Colonial Bank. Its impressive advertised nominal capital concealed an inadequate paid-up capital of barely £75,000, and the large losses of the first year were cloaked by a last-minute amalgamation with an Alexandria firm, the new bank taking the title of the London and Mediterranean Bank. But the public refused to subscribe the further million pounds needed to start this venture properly, even in 1865, and had to be attracted by a further extension to India and the more comprehensive title of the London and Bombay Bank and General Financial Insurance Agency Corporation Ltd. The Liquidator's Report in 1868 [3] stated that the assets in Bombay consisted almost entirely of arrears of calls and uncalled capital, the calls being very difficult to recover owing to the irregularities in making them, irregularities in the constitution of the company, and fraudulent misrepresentations.

[1] Liquidation Meeting reported in *Bankers' Magazine*, 1868, p. 47.

[2] If the bank's branches in each foreign country had been declared bankrupt separately, the financial consequences for the home shareholders might have been very serious indeed. The Liquidator stated that a call of £20 would have been necessary.

[3] *Bankers' Magazine*, 1869, p. 650.

Legal and political difficulties in Germany discouraged banking penetration from England from the first. The London, Hamburg and Continental Exchange Bank, formed in 1863 to buy up a small Hamburg banking firm, did not survive the failure in 1865 of its promoter, David Lewis, a railway speculator of some note.[1] The Anglo-German Bank of 1871 was formed under better auspices but came to the same end. It was supported by the Duke of Ratibor, members of the North German and Prussian Parliaments, and representatives of two British East India firms, amongst others, and was to be incorporated under the new limited liability law of 1870 of the North German Confederation, with the object of developing trade between England and Germany and the East. The promoters, who claimed that half the capital of three million thalers had already been subscribed in Germany,[2] seem to have been attracted by the very successful results of the Anglo-Austrian Bank, whose shares then stood at 95 per cent premium, and whose net profits in 1869 amounted to 60 per cent of its capital. But the scheme was not sufficiently well backed in London to overcome public distrust of one of its principal provisions —that the bank's Head Office should not be in London, but in Berlin. Insufficient subscriptions were received, and, after a period of inactivity, returned.

Most of the remaining German banks founded in London owed their initiative to or at least were intimately connected with the great German credit banks. The International Bank of Hamburg and London, founded in 1875, had several important German connections, of which the chief was the Diskontogesellschaft; the London and Hanseatic Bank of 1873 was from the first in close alliance with the Commerz und Diskonto Bank of Hamburg[3]; and the German Bank of London was promoted in 1871 by the Deutsche Bank, a small interest being also taken by the Mitteldeutsche Creditbank[4] and the bulk of the capital being disposed of abroad. In 1879, however, the Deutsche

[1] Cf. *The Times*, 13 April, 1866.
[2] *The Times*, 22 May, 1871.
[3] Whale, *Joint Stock Banking in Germany*, London, 1930, p. 67.
[4] Strasser, *Die Deutschen Banken im Ausland*, München, 1925.

Bank opened its own branch in London, and sold its holding in the German Bank, which was reconstructed, with a larger paid-up capital of £400,000. The latter subsequently bought up Dennistoun, Cross & Co., a firm of merchant bankers specializing in the cotton acceptance business, and changed its name to the London and Liverpool Bank of Commerce, to signify its English ownership.

Of all the European countries, Austria offered as attractive a field as any for new banking capital. Comparative political harmony and extreme lack of capital of any sort were deciding attractions for capital in general, but the adoption of freer trade, the extension of the railway net, and the reform of 1862 in the paper currency, made a particular appeal to banking enterprise. The English system of deposit banking, with current account and cheque facilities, was altogether unknown in Austria, where the banking system as a whole was inadequate, judged by English standards, to the work of financing the trade of the country. In 1863, when two rival schemes were put forward by powerful English groups, the Viennese exchange had risen from 140 (florins per £10) to 110 in the last year, and there had been an almost sensational rise in the price of Austrian Bonds of 20 per cent in the same period.

The Imperial Privileged Union Bank of Austria was originally sponsored by a group headed by Lord Fermoy, Chairman of the Metropolitan and Provincial Bank, R. D. Mangles, at one time Deputy-Chairman of the East India Company, and several influential men from the Union Bank of London, the Union Bank of Australia, Overend Gurney & Co., and Agra and Masterman's Bank, the two last being the most spectacular failures of the 1866 crisis. The rival project, the Anglo-Austrian Bank, was promoted by George Carr Glyn and Samuel Beaumont, M.P., the original Board being ornamented (according to an Austrian fashion then falling rather out of favour) by Prince Sapieha, President of the Galician diet, Count Edmond Zichy of Vienna, and C. I. Klein, President of the Vienna Chamber of Commerce. Each bank was started in 1863 with a capital of £2 millions; each was organized on the same lines, the terms of the

concessions from the Austrian Government being similar, and the bank Head Offices being settled in Vienna in both cases. But each group at first claimed superior privileges to the other, and a battle by correspondence broke out in the press,[1] which was only terminated by the break-up of Lord Fermoy's group owing to internal dissensions.[2]

This by no means left the field clear for the Anglo-Austrian, which had to meet keen competition from the local joint stock banks, like the recently founded (and now notorious) Kreditanstalt, as well as from the old-established private bankers in Vienna. Its obvious line at first was to push the current account business on the English model, and it did this for some years with success. There were a few extraordinarily high dividends (25 per cent, 76⅔ per cent, 35½ per cent, 15 per cent, 27½ per cent, 23 per cent, from 1869 to 1874) but there followed a longer, leaner period. The English system of deposit banking failed to strike root in Austria, perhaps because of a feeling of financial insecurity which persisted after the 1848 revolutions,[3] and the Anglo-Austrian eventually saw that its salvation lay in concentrating its resources in the activities of a typical European mobilier bank.[4] It began early to participate substantially in Government loans and "report" business, and jointly with Baring Brothers, and two private banking firms in

[1] See especially *The Times*, Sept. 16, 17, 18, Oct. 9, 11, 15, 1863; *Bankers' Magazine*, pp. 475, 823, of 1863.

[2] Lord Fermoy's preliminary concession had been drafted with the help of the Baron de Thierry, who had retired from the Austrian Ministry the previous year, with a not altogether unblemished reputation. The draft was disallowed by the Government as contrary to public policy, and the statutes substituted for it called for a majority of Austrian domiciled directors. These disagreed with their English colleagues on the question of preliminary expenses, and the bank not being in operation within the time stipulated in the concession, this was finally withdrawn in October, 1863. Lord Fermoy had now to sustain a successful action brought by the Baron de Thierry for £30,000 in payment for services rendered in the original negotiations.

[3] Suggested by *Geschichte einer Wiener Bank*, Morawitz, Vienna, 1913.

[4] "Die Anglobank war eine reine Mobilbank, die sich die Gebarung der oesterreichischen Kredit Anstalt zum Vorbilde genommen hatte und mit Rucksicht auf der ausserordentliche Ausbreitung des Geschaftsumfanges diesser Anstalt die Gelengenheit nussen wollte."—Scheffer, *Das Bankwesen in Oesterreich*, Vienna, 1924, p. 204. Appendix 1 gives the *Konzerne* of this bank in Banking, Insurance, Metals, Chemicals, Timber, Leather, Paper, Sugar, and other industries.

Vienna, it was allotted nearly half of the Fl. 70 millions of Silver Loan of the Government, in competition with the Kreditanstalt, whose offer was not accepted. It also furnished part of the large credits required by the Austrian Government in London to pay for the Prussian indemnity.[1] In 1865, the bank began to take an interest in railway finance by placing obligations of the Lemberg-Czernowitz line. It took a notable part in the finance of Baron Hirsch's Orientbahn, begun in 1869, and it was concerned in the promotion of the East Hungarian Railway of 1868 jointly with Baron Hirsch, Charles Waring, and Bischoffsheim.[2] Its industrial participations spread with the growing industrialization of Austria, and it was actively concerned in several important banking promotions.[3] With the spread of its interests, the bank became thoroughly involved in the speculative excesses in Vienna before the crash of 1873 (enjoying the doubtful distinction of introducing Turkish Lottery Bonds to the Vienna Bourse in 1869), and it took a full share in the flotation of speculative real estate banks to whose failure the crisis was primarily due. Anglo-Austrian capital (in bearer shares) began to find its way into every country in Europe, and the bank itself became after 1873 one of the largest and most important in Austria, with a reputation which was recognized internationally.

As other European countries came within the orbit of the Cobden Treaties, so attempts were made to build up new banking connections with them. In Italy, the political unification of 1861 and the law of November 1863 removing import restrictions, emboldened a group of promoters led by the International Finance Society (one of the then best-known Crédits Mobiliers in London [4]) to project an Anglo-Italian Bank, for a country in which banking facilities were

[1] Steiner, *Entwicklung des Mobilbankwesens in Oesterreich*, Vienna, 1913.
[2] Jenks, *Migration of British Capital*, p. 177.
[3] Notably the Anglo-Deutsche Bank of Hamburg, liquidated after the German crisis of 1873, and the Anglo-Hungarian Bank, whose capital was offered in London, Budapest and Vienna in 1868. This latter institution replaced the Hungarian branches of the Anglo-Austrian because the Hungarian Government desired a separate "national" bank.
[4] Promoted by Junius S. Morgan of George Peabody & Co. (afterwards Morgans), Fruhling & Goschen, and Stern Bros.

notoriously lacking. Sir John Lubbock was one of the first chairmen of this institution and the well-known issue houses of Fruhling & Goschen, and Thomson Bonar & Co., were also connected with it, together with several influential Italians. The directors, assured that their bank "was regarded with the greatest favour by the Government,"[1] began business in Turin in October, 1864, with a paid-up capital of £176,000 and under the authority of a Royal decree. Shortly afterwards, however, Italy became involved once more in political disturbances. The bank had to open a branch at Florence, whither the Italian capital had been moved in 1865, and consequently sustained losses on its Turin business, which had been built up at considerable expense. The directors had also to face exchange losses through Italian suspension of gold payments, and were obliged to reorganize their business radically.

> Experience had shown that the English system of banking was not so successful in Italy as they had anticipated, but by lending money to public establishments for a longer period than was usual in this country, and making advances to municipalities on the security of the rates, in the way that insurance offices did here, instead of discounting small trade bills, they had reason to believe a safe and profitable business might be secured.[2]

The business actually undertaken in fact proved neither very safe nor very profitable, the bank paying low dividends and having to write off more than half its capital in the course of its undistinguished existence as a mobilier bank on the continental model.

In Spain, early attempts made to found Anglo-Spanish banks were met by the obstacle of the unsettled question of the Spanish external debt. A group headed by the leading lights of the Alliance Bank of London had, however, formed in 1863 a limited company with a nominal capital of £1,200,000, called the Madrid Bank, and in May, 1864, Queen Isabella II signed a concession granting note-issuing powers. The concern was to be controlled, as usual, from London, though some of the capital was intended to be taken up in Spain. The local Spanish Board, however, seems to

[1] *The Times*, 12 Jan., 1864. [2] Annual Report, 1869.

have managed affairs subsequently without much regard to instructions from London, and failed altogether to raise any Spanish capital. On winding up at the end of two years' disastrous operation, the bank found itself with a large deficit. In 1866, a concession for a National Bank of Spain was reported [1] granted to a London group, and a guarantee fund of £200,000 deposited, but the scheme was carried no further, owing partly, no doubt, to the unfavourable impression left in the City by the unpleasant experiences of the Madrid Bank shareholders. Another attempt was made in 1872, when a petition [2] was laid before the Spanish Minister of Public Works for the establishment of an Anglo-Spanish bank in London with branches in the principal Spanish towns, but not till 1881 was such a bank finally established. The Union Bank of Spain and England then formed with a capital of £200,000 by Hanbury Barclay and B. T. Bosanquet, private bankers, dragged on a rather undistinguished and unprofitable existence and was finally wound up in 1896.

Sweden did not offer particularly rosy prospects for foreign banking capital in the 'sixties, in view of the rapid development of native joint stock banks in those years. The English and Swedish Bank of 1864, however, hoped to secure a footing on the basis of relatively cheap capital obtainable in England, and opened branches in Stockholm and Gothenburg on establishment. From the first, the bank, under the able leadership of J. A. Hankey, suffered somewhat from insufficient knowledge of local conditions,[3] and the local Boards of Direction set up during the first year were not effective in overcoming this—perhaps because the London directors insisted on English methods and even went to the length of inserting a provision in the Articles binding themselves to select only English-trained managers for the foreign branches. Dividends of from 4 per cent to 6 per cent were paid at first and the bank's shares began slowly to be bought up in Sweden, which had been allotted only 9 per cent of the share capital originally. The shares continued to stand

[1] *The Times*, 18 April, 1866. [2] *Economist*, 28 Oct., 1872.
[3] Cf. Flux, *Banking in Sweden*, U.S. National Monetary Commission, Doc. 576, p. 108.

at a considerable discount in the market, however, and in 1866 news of heavy losses began to leak out. Before these became fully known, an amalgamation on advantageous terms (at the prices then ruling for the banks' shares) was proposed by the Skandinaviska Kreditaktiebolaget, but when the shareholders were on the point of making up their minds, it was revealed that the bank had locked up nearly 20 per cent of its capital of £500,000 in loans to iron and steel plants and local sawmills on the verge of insolvency. Large sums had also been advanced on shipments of iron ore sold to English firms which subsequently failed in the crisis. The Skandinaviska proposal fell through and the bank was liquidated in 1867, with final losses on bad debts of £135,000.

In 1860, the Russian Government gave up its banking monopoly, and there commenced in Russia a period of rapid development of joint stock banking,[1] in which English capitalists began to get interested. Early in 1860, a prospectus of the General Mercantile Bank of St. Petersburg (capital £2 millions) was circulated privately in the City,[2] sponsored by Devaux & Co., with a Board adorned by foreign diplomats from several European capitals. It was followed by several others—amongst them the English and Russian Bank, formed by Robarts, Lubbock & Co. and Ricardos, and actually chartered by the Tsar in 1863[3]; and the Russian London Bank of 1871, a Russian company formed with a capital of R.7,500,000, by Thomson Bonar and Rodocanachis. None of these was heard of again after 1871 and until the Anglo-Russian Entente of 1907, the greater part of the foreign banking capital in Russia continued to be French.

The great stimulus to the creation of all these Anglo-European banks in the nineteenth century was the expansion of the joint stock banking movement in England itself, and the new facilities offered by the Companies Acts. But of the entire European group, one member, which owed nothing, on its origin, to these influences, had already an interesting

[1] Claus, *Das Russische Bankwesen*, Leipsic, 1908, Chap. X.
[2] *Bankers' Magazine*, 1860, p. 611. [3] *Ibid.*, 1863, p. 779.

record of some thirty years' business by the time most of the others were projected.

The Ionian Bank, which shows a history of steady, if inconspicuous development over nearly a century, did not at first begin operations in Greece, though it was established in 1839, the year when Greece was declared an independent kingdom; its first branches were opened in the United States of the Ionian Islands, a protectorate of Great Britain, ceded under the Treaty of Paris of 1815. The Islands had been of considerable strategic importance from classical times; they were the site of the chief arsenal of the Venetian Republic, and they became an important French naval stronghold during the Napoleonic Wars. Their fate was thus of interest to the Great Powers, and under the British Protectorate, Zante became an important British naval base. The administrative arrangements of the Protectorate involved a considerable measure of authority for the Ionian Senate (on the Venetian model) and the Legislative Assembly, but ultimate power was in the hands of the Lord High Commissioner, at first Sir Howard Douglas. It was in fact the first Commissioner who suggested the formation of the Ionian Bank "as a means for remedying the many grievances and exactions which the necessitous small landowners were enduring from the local moneylenders,"[1] who financed the sale of the oil and currants then produced locally. In 1838, Douglas made overtures through the Ionian Agent in London, Sir Alexander Wood, to a group of capitalists headed by Sir Frederick Hankey,[2] and when the banking co-partnership was finally formed under the name of the "Ionian Bank," arranged for the grant of a concession from the Ionian Government.

This[3] constituted the bank, for a period of twenty-one

[1] *Egyptian Gazette*, 5 Aug., 1907.

[2] Other subscribers to the Indenture of 1840 were Charles Baldwin, Oliver Farrer, Sir Andrew Pellet Green, and other members of the identical group which founded the Bank of Australasia, the Bank of British North America, and several other important colonial banks about the same time. Cf. Baster, *The Imperial Banks*, Chap. III.

[3] In the form of a Resolution of the Ionian Senate dated 23 Oct., 1839, approved and confirmed by Sir H. Douglas. Part of a collection of Ionian Bank papers kindly loaned me by the Secretary of the Bank.

years, the sole joint stock company empowered to issue notes in the islands. The Indenture [1] stated the bank formed for carrying on Banks of Issue and Deposit in the Ionian Islands " to be under the management, control and supervision of a Court of Directors in England." Branches were to be permitted outside the Ionian States, but (with a qualification doubtless due to the insistence of the Lord High Commissioner) they were not to be supplied with capital " to the prejudice and hindrance of the Bank in the said States." Four years later, the bank applied for and was granted a British Royal Charter,[2] incorporating it with double liability under the usual conditions.[3]

Progress was very slow, as might be expected in a country where banking was practically unknown, and where the political situation was very unstable. At first, the bank was received with considerable suspicion.[4] It began by making large loans to the Ionian Government, but soon found a profitable field for its capital in the exchange business, which grew to such an extent that a branch had to be opened at Trieste in the first year, to furnish exchange on that place. The bank gained much from the growing trade between the Mediterranean and British ports, particularly after the reduction of the British currant duties in 1844; its reputation was considerably enhanced after the financial panic following the 1848 revolutions, by the large shipments of specie which the London office made to the Ionian branches (at a considerable loss) to stop runs on the bank there; and the directors were successful in getting their concession renewed in 1860 for a further twenty years, though this time without the exclusive privilege of note issue.

By 1850, the bank had established agencies in Greece itself, and when by the Treaty of London in 1864, the Ionian Islands were handed over by Great Britain to the kingdom of Greece, business was already firmly established on the mainland. After the cession, the Ionian Bank became one of the two privileged note-issuing banks in

[1] Dated 14 Sept., 1840. Ionian Bank Collection.
[2] Dated 18 Jan., 1844. Patent Roll, 7 Vict. 1843–4, 4703, Part 14.
[3] For which see Baster, *The Imperial Banks*, Chap. II.
[4] Annual Report, 1840.

Greece, the other being the National Bank, which at first strongly resented the intrusion.[1] The fact that its original concession rights in the Ionian Islands, and its very full powers of doing business in Greece, were guaranteed under the Treaty[2] by Greece and the other contracting Powers, placed the bank in a position of great prestige from the first, and safeguarded its rights in a way which is perhaps unique in the history of commercial banking. But its development after this, and in this new sphere, depended to a large extent upon the uncertainties of local politics, of which the events of 1868 furnish a significant illustration.

In December, 1868, when the long quarrel between Greece and Turkey seemed about to break forth into renewed armed conflict, business prospects in Greece naturally suffered a temporary eclipse. But the situation was made much worse by the action of the Greek Government, which suddenly announced its intention to finance the purchase of new iron-clads by a forced issue of inconvertible notes, other means (especially loans from abroad) being completely unavailable. This would have meant of course, the immediate conversion of all the Ionian Bank notes in circulation (then to the value of over £stg.100,000). The Ministry followed this up by demanding 4,000,000 drachma in specie from the National Bank (threatening force if necessary)[3] in exchange for the "privilege" of issuing inconvertible paper money. The Ionian Bank protested vigorously against this action, urging that it would "put an end to all exchange operations between Greece and foreign countries, and entail a crisis which will be the ruin of all commercial and banking establishments in this country"[4]; and the British Minister at Athens, after telegraphing home that "if this measure is not prevented, it will be little short of ruin,"[5] joined in

[1] Report of Extraordinary General Meeting, 1869.

[2] The King of Greece took over all the engagements of the Ionian Government to private companies. "Dans cette catégorie se trouve spécialement compris . . . les privilèges concédés à la Banque Ionienne." —Art. 7 of the Treaty. B.P.P. 1864, LXVI, 137.

[3] Report to Foreign Office of the British Minister at Athens, 24 Dec., 1868, F.O. 32/387.

[4] Letter to the British Minister, 24 Dec., 1868, F.O. 32/387.

[5] *Ibid.* Telegram to Foreign Office, 24 Dec., 1868.

signing with the other interested Powers a strong letter of remonstrance to the Greek Government.

In face of such protests, the Greek Government substituted a new plan—finally but very grudgingly accepted—providing for a "loan" of 21,000,000 drachma from the two banks against a pledge of the salt and fisheries revenues as security, and the notes of the banks were made inconvertible legal tender during the term of the loan.

Fortunately, the proposal never came completely into effect, for the war scare subsided and convertibility was restored in 1870. But the success of the experiment from the point of view of the Greek Government invited repetition later, and convertibility was again suspended in 1877, on the occasion of the Turkish War, for a period of seven years, and also from 1885 until the outbreak of the World War. All banking operations, but particularly those of the English bank, were thus immensely complicated and endangered by the liability to sudden and erratic exchange fluctuations. The climax came with the complete bankruptcy of the Greek Government in 1898, as a result of which the Ionian Bank's loans to the Government, amounting fortunately to a moderate total only, had to be funded in new securities issued under the auspices of the International Financial Control. The history of the bank in the latter half of the century thus consists of a continuous record of struggle against the effects of political disturbances, in an atmosphere of retarded economic development due to the same cause. As time went on, the bank found it more and more difficult to obtain the renewal of its concession complete with the original privileges. The good effect of the cession of the Ionian Islands to Greece faded, and "national pride and anti-foreign feeling, fostered by certain financial interests"[1] made the negotiations so difficult that in 1905 the bank was forced to consent to the termination of its rights of note issue in 1920.

Just before this, a further important constitutional change took place, affecting the bank's position in England. Its

[1] "Modern Greece," by Falconer Larkworthy (Chairman of the Ionian Bank), *Scottish Bankers' Magazine*, Jan., 1913.

Royal Charter had now become antiquated and unduly restrictive, and its renewal presented some difficulties, as the administration in England was averse to incurring fresh responsibilities under renewed and reconstructed bank charters.[1] Moreover, the numerous conventions made with the Greek Government since the date of the original concession had brought about a pronounced lack of correspondence between the privileges conferred by the Charter and the privileges actually enjoyed in Greece. It was the difficulty of working under two authorities which finally induced the directors to promote a Bill in Parliament in 1882 giving them power to determine the Charter and to register the bank under the Companies Acts. In this form, it survives to the present day.

So far, the great English deposit banks had kept aloof from direct foreign branch expansion. The contrast with their counterparts in the European countries, was too strong to be missed, especially as several of the great European banks had maintained important offices in London since the 'seventies. The position of these branches at the turn of the century, when some disquiet began to be felt, was notable. The foreign invasion came almost entirely from the advanced countries of Western Europe. Banks therefrom with an aggregate capitalization of approximately £100 millions were represented by offices in London, and at least half of this came from institutions of really first-class standing, with ramifications in all parts of the world.

The invasion really seems to have given rise to rather exaggerated alarms. Certainly the great foreign banks in London monopolized foreign exchange business, and the London agencies of foreign firms passed to them in addition,[2] instead of to English banks. Moreover, they could not be said to form an organic part of the money market, since their deposit rates abroad were not bound to the Bank Rate as in the case of the English banks. Further, their presence in such numbers and with such vast resources, could un-

[1] Cf. *The Imperial Banks*, Chap. IV.

[2] Cf. Crédit Lyonnais Report of 1899 quoted in "Foreign Competition in Banking," *Journal of Institute of Bankers*, Feb., 1900.

doubtedly throw a great strain upon the reserves of the Bank of England at a time of difficulty,[1] when the actions of the foreign banks would to a large extent be governed by causes outside the control of the home banking authorities. Their attempts to realize their investments, i.e. their sterling balances, would not, as in the domestic sphere, put the market into the bank, but attack the bank's gold reserve. And of the two situations, there is no doubt that an international drain is generally less amenable to control from the centre affected than an internal one.

But it is clear that the foreign banks have never had more than a limited access to the London market. The Bank of England, fearing the possibility of litigation in foreign courts, and responsible primarily for British financial stability, does not normally take the acceptances of foreign banks for discount or as security for loans, unless they bear reputable English endorsements. This limitation is normally reflected in the discount market by the passing of a few of these bills at a penal addition of $\frac{1}{16}$ or $\frac{1}{8}$ per cent on the rate, whilst in difficult times they are refused altogether. Again, the foreign banks have no Clearing House seat, and must make all their cheques and acceptances payable through a clearing bank. With their rights thus limited, they bring resources which, before the War at any rate, made the London market the cheapest in the world. They increase banking competition to the benefit of the trader doing foreign business; and they introduce high-class foreign investments. Before 1914 there does not seem any reason to doubt that the advantages of their presence on balance far outweighed the disadvantages.[2]

All this merely served to confirm the belief of the critics that here was an important gap in the British financial

[1] Cf. "Banking Reserve," *Bankers' Magazine*, 1900, I, p. 353. The foreign banks were now precipitated into the controversy led by Sir Inglis Palgrave on the insufficiency of the Bank of England's gold reserve. But the danger to the reserve lies clearly in the volume of net liabilities on short term (chiefly foreign-owned sterling deposits) and this is quite independent of the number of foreign banks in the market. Macmillan Committee Report Cmd. 3897, 1931. App. 1, Table 11.

[2] Cf. "Foreign Branch Banks in London," W. F. Spalding, *Journal of Institute of Bankers*, Nov., 1911.

system which ought to be filled from within. It could be done apparently only by large banks with extensive foreign connections. And so began the twentieth-century agitation for the British *deposit* banks to open branches abroad, particularly on the Continent. It was fanned by the growing proportions and strength of the foreign contingent in the London Money Market,[1] and by the striking developments in overseas banking in other countries. Between 1904 and 1906 no less than eleven new German overseas banks were founded. In 1901 an American plan was mooted for a great international bank for Great Britain, the United States and Europe. In 1903, overtures were made by the National City Bank of New York and its continental allies to secure an interest in, if not the control of, the Anglo-Foreign Banking Company Ltd., as a base for London operations.[2] In 1911, the British Bank of Northern Commerce was founded in London with a capital of £2 millions by an extremely strong continental syndicate including the Stockholms Enskildabank, Den Danske Landmansbank, the Banque de Commerce de l'Azoff Don and the Banque de Paris et des Pays Bas. Thus the Scandinavian banks secured direct representation in London by a subsidiary owned and controlled by themselves. In 1906, two million dollars of additional capital required for the Sovereign Bank of Canada was found not by British institutions at all, but by Morgans of New York and the Dresdner Bank of Berlin. There were not wanting signs that seemed to show how our own great banks were lagging behind in foreign expansion.

The English banks themselves were certainly slow to move. The first response came from the Midland Bank, which in 1905 opened a small foreign exchange department. Lloyds followed in 1911, with the purchase of Armstrong & Co. of Paris, formerly agents of important English banks. The business was incorporated with a capital of £250,000 as a foreign subsidiary under the name of Lloyds Bank (France) Ltd., with the idea of avoiding heavy taxation and perhaps

[1] Cf. especially the striking figures published by the *Bankers' Magazine*, May, 1885; March, 1900; April, 1904.
[2] *Bankers' Magazine*, 1903, I, p. 77.

of rebutting any suggestion that the parent bank's deposits were being used to develop *French* business, by the production of an independent balance sheet. Two years later the London County and Westminster Bank (Paris) was incorporated with a nominal capital of £400,000, and acquired certain approved accounts of the Banque Franco-Americaine. The caution and hesitant progress was due to the general fear that continental branches of the deposit banks would become mobilier banks on the continental model, and lock up English deposits in long-term loans abroad.[1] The history of the Anglo-European banks of the last fifty years was not reassuring. Up to 1914 there was considerable doubt about the wisdom of these continental subsidiaries, and the stimulus of war needs was required for further progress.

[1] Cf. Mr. Goschen's 1913 Speech on English banks abroad, and reply thereto in Journal of the Institute of Bankers, 1914, p. 40.

CHAPTER IV

BANKING AND POLITICS IN THE NEAR EAST

THE history of the Turkish banking group throws into sharp relief one of the main functions of overseas banks in general, the direction of capital exports. Few of the banks whose origins are to be discussed here did, in the early years, much of a commercial business, such as the buying and selling of bills in order to finance international trade. Whatever their prospectuses and advertisements might say, their main, if not their sole function, was to introduce British capital into the countries of the Near East by way of loans to the existing Governments. In the years 1850–70, the tide of British capital exports was moving strongly to the flood, and at the same time the extravagant and financially hard-pressed Governments of the Turkish Empire were being made aware of what seemingly inexhaustible wealth could be had from the capitalist States of Western Europe merely for the asking. As a rule, the Governments of the lending States viewed the mounting indebtedness of the economically subordinate countries of the Turkish Empire without excessive alarm. By waiting until the greed of their investors and the extravagance of the borrowers had produced the inevitable bankruptcies, they were able to apply liens and stake out economic claims against the long-awaited day of complete political disintegration of the Empire.

The Treaty of Paris of 1856 ended the Crimean War and admitted Turkey to the Concert of Europe on the basis of reaffirmed Turkish promises of long-overdue administrative reforms. The ostensible reason for the influx of foreign capital into Turkey which then began and has continued with various interruptions to the present, was the fact that Turkey had to call upon her late allies in the War for the

finance of these reforms. For the large loans then in contemplation, it was desirable that there should be a strong banking agency at Constantinople, recognized by the Turkish State but not too closely connected with it, and of unimpeachable standing at the chief European monetary centres, whence it would have to draw its support. It was also then thought desirable that the bank should be the instrument of reform of the chaotic monetary system, besides helping in some way to provide a proper banking system for the agriculture and commerce of the Empire, so as to render these independent of the notoriously high exactions of the "fifty or sixty bankers and usurers" for whose benefit Turkey was said to exist.[1] Thus the charter of reforms of 1856 [2] promised, with characteristic optimism, that "Banks and similar institutions shall be created as a means to reform the monetary and financial systems of the Empire and to create capital and wealth."

The rôle of a new European bank in this situation was thus tolerably clear. Its function would be first of all to dispose of the securities of the Turkish Empire on the European markets, either by subscribing for large blocks itself and reselling to the public later, or by floating the whole loan in London or Paris for a commission. It might also be called upon for short-period loans to the ruling personages of the Empire, on the understanding that such loans would be repaid out of the proceeds of long-term public issues later, with perhaps the added advantage of some kind of preferential treatment to the bank when the public loan came to be floated. Further, it would look to being entrusted with the service of the public debt, and perhaps the receipt and transmission of revenue from the provinces, through its branches. In anticipation of the seasonal inflow of taxes, it would also make short-term advances to the Government. At Constantinople, if not in most of the Turkish dependencies as well, part of the special task would be the retirement of debased and redundant coins and notes, with which

[1] Nassau Senior's *Journal Kept in Turkey and Greece*, London, 1859, p. 84.

[2] Art. 24 of the Imperial Order, issued at Constantinople on 18 Feb., 1856.

Empire), the uncertainty of land taxes, and the want of proper Courts of Justice. No proper credit system could be extended without reforms on these points.

> In my opinion [he wrote] the influence of a powerful company would be a useful agent in effecting these improvements, and their influence would be much increased by bestowing a Charter upon them, for it is to be observed that the indefinite idea of power which the Turks attach to a chartered body carries great weight with it and redeems the agents of the company from the contempt with which a Turk always views persons embarked in commercial pursuits.

Bruce was sceptical about some of the terms of Pasquali's prospectus, but advised against seeking further information, "as were enquiries to be made on the spot . . . the suspicious and narrow-minded Turks would immediately fancy that England sought to obtain some political object by means of the bank, and would in consequence throw obstacles in the way." As a matter of courtesy, however, the Foreign Office did write to Egypt, asking if there existed any official objection there to the name of the bank [1] and warning the local British representative "not to give any grounds for the supposition that the British Government seeks to obtain any political object by the establishment of the bank" or was in any way connected with it.

The reply from the Consulate at Alexandria [2] reported the Viceroy of Egypt to be definitely in favour of the bank. No allusion was made on either side to the note issuing powers conferred by the charter, though this was clearly an anomaly. The British representative, however, did not consider this important. Permission might possibly be required to dig a canal, he wrote, but hardly to circulate bank notes! Reports from London sources also indicated that the Viceroy approved of the bank, and wanted to obtain for it the advantage of British experience in its constitution and administration; and it was even stated [3] that he had invited Pasquali to form it.

[1] Letter to Acting Consul-General Green, 19 Oct., 1855, F.O. 141/27.
[2] Letter to F.O., 5 Nov., 1855, F.O. 78/1123.
[3] Letter from Stephen Sleigh (a promoter) to F.O., 17 Oct., 1855, F.O. 141/27.

The actual charter granted to the promoters on 25 January, 1856,[1] conferred the double liability privilege and incorporated the bank for twenty-one years "for the purpose of carrying on under the management of a Court of Directors in London the business of banking in Alexandria with branch banks at Cairo, Suez, and in any parts of the Viceroyalty of Egypt." Powers of note issue were granted up to the amount of the bank's capital (£200,000), the notes to be secured by a 33⅓ per cent specie reserve, and to be redeemable at the place of issue as well as at Alexandria. The corporation might employ its funds in ordinary banking business, "but not in any trading or mercantile speculation or business whatsoever not usually considered as falling within the ordinary legitimate purposes and operations of a banking establishment." Land speculation was in particular strictly forbidden, the bank being prohibited from holding at any time more land than was necessary for its office space. Advances on directors' paper were wisely restricted to a limit of one-third of the whole, and a director's personal guarantee could not be accepted as security at all. The total of notes issued, deposits and all other engagements to the public was not to exceed three times the paid-up capital plus the bullion reserve.

Stringent, and on the whole hampering regulations were made for the definite encashment of capital subscriptions before the bank commenced business, when all its shares had to be subscribed for, and at least one half paid up, the rest to be called and paid up within two years. As further increases in capital had to be specifically authorized by the Treasury, the bank found its continued expansion somewhat hindered, since not all of the large capital eventually required could be attracted in the beginning. Finally, the charter was to be forfeit if the bank suspended payment for thirty days. The entire document was short in length and general in terms, the details of the daily administration of the bank being left to the Deed of Settlement, which again had to be drafted under the supervision of the Treasury.

Whether all the provisions of the charter and the Deed

[1] Patent Rolls, Chancery, 19 Vic., Part III, No. 23.

of Settlement were duly observed,[1] and whether the Treasury supervision then agreed to was at any time more than formal, there is no doubt that the restrictions were in the main sensible, if occasionally a hindrance, and they had their due effect in keeping the bank clear of the worse excesses. But competition was keen, and the pressure to relax some of them must have been considerable.

The establishment of the British bank was not allowed to go unchallenged by the vested interests in Egypt. Before it opened its Alexandria branch for business on 7 July, 1856, the French private bankers and moneylenders in Egypt got wind of the project and protested to the French Consul that its name suggested some official connection with the Egyptian Government.[2] In fact, there had been a " Banque d'Egypte " a few years before, which had figured amongst the numerous business interests of the Viceroy, and the Government had made good its deficiency when it failed. The Bank of Egypt promoters in London made strong representations to the Foreign Office,[3] pointing out that the name of the bank had been officially agreed by the Egyptian authorities even before they received their charter, and the matter was finally allowed to drop with the dispatch of a reassuring circular to the foreign Consuls in Egypt explaining that the new bank was not specially privileged in any way.[4] The London Board also took the prudent step of dispatching one of their number to Alexandria shortly afterwards, in order " by judicial communications with the French commercial interests, to allay the feelings of jealousy and suspicion with which they evidently regard the establishment of a British bank in Egypt." [5]

On commencing business, the bank first appointed Pasquali manager in Egypt, at a munificent salary. Pasquali, who had practically founded the bank, was no doubt entitled to this recognition, but he was soon at variance with the

[1] On the failure of the Bank of Egypt in 1911, it was revealed that there had been serious breaches of the charter regulations.
[2] Report of British Consul to F.O., 21 Feb., 1856, F.O. 78/1222.
[3] Letter from Col. Oliphant to F.O., 18 March, 1856, F.O. 141/29.
[4] Dated 1 May, 1856. Copy in F.O. 141/30.
[5] Letter from Bank of Egypt to F.O., 4 June, 1856, F.O. 141/29.

directors in London over the method of conducting the bank's business. For some time he and his Assistant Manager (appointed in London on the specific recommendation of Governor Weguelin of the Bank of England) managed the bank as they pleased. In 1858, profiting by the presence in Egypt of Stephenson, Brunel and sundry British aristocrats in connection with the Egyptian State railways, and prompted by the Pasha, Pasquali gave a "Bank of Egypt Ball" at Alexandria in honour of the celebrities. Not unnaturally the London directors strongly disapproved of this, and reminded their manager pointedly that "ball-giving did not legitimately come under the head of banking," explaining to their shareholders at the same time that they had insisted on an economical ball, and that perhaps, on the whole, Englishmen "were not always the most capable of judging what might be considered expedient in an Oriental kingdom." [1] Probably Pasquali was disappointed at the lack of the specially favoured treatment from the Government which he had led the London directors to expect,[2] and was anxious to attract influential custom in his own peculiar way.

In other respects the bank seems to have made a good start. Its credit in Egypt was sound,[3] and it early secured a good share of the accepted "banking" business of the Egypt of those times—namely advances to the Viceroy and the members of his family at usurious rates. In 1861, in fact, it transpired that Pasquali had lent £162,000 at 12 per cent to El Hami Pasha, one of the Egyptian princes, and on his refusing to repay the debt, had tried to prevent the Prince from leaving Egypt. It may well be imagined

[1] Chairman's Speech at Annual Meeting, 1859.

[2] Cf. the disappointing statement at the Annual Meeting in 1864: "There was no great encouragement on the part of the Government; it simply said the more banks established there, the better it would no doubt be for them, but all they had to do was to deal fairly with the different banks in offering them such encouragement as they could equally." Further, the first Egyptian long-term loan was entrusted in 1862 in the first instance to the Bank of Saxe Meinungen.

[3] In 1856, the fellaheen were already reported as saying: "What honest people these English bankers are, and how much more satisfactory are their payments than those we have hitherto been accustomed to!" *The Times*, 30 Oct., 1856.

that " owing to the consequent lock-up of capital and to the great confusion and scandal which followed upon the attempt to detain the Prince in Egypt, the business of the bank was brought nearly to a standstill." [1] Pasquali had also locked up £120,000 in advances upon land. Fortunately the Viceroy himself took over the family debt, and the bank managed to write off its losses on the others, meanwhile paying a regular annual dividend of 7 per cent out of profits made mostly on taking up the Government Treasury Bills, and undertaking the transfer to England of the £282,000 of Egyptian tribute mortgaged as security for the first Turkish loan of 1854. These profits sustained it through years of violently fluctuating exchanges (a range of 20 per cent of par in a week was not unusual), of increasing competition, and of economic and political instability. The directors having taken the first lesson to heart, Pasquali [2] was replaced by English local managers and directors, and in eight years after its foundation the bank was increasing its dividend from the paltry 7 per cent of the Pasquali regime to 10, 14, and even 20 per cent of the 'sixties and 'seventies. Not until after the British occupation did the directors have to begin making confessions that " there were no more Treasury Bills as in old times, and the bank had had to work up a banking business." [3]

With the negligible exception of certain small French private bankers, the Bank of Egypt stood alone for some years as the only large foreign bank, properly so-called, in Egypt. But as the profitability of the country as a field for the employment of foreign capital increased with the development of cotton-growing during the American Civil War, the undertaking of the Suez Canal, and the growing extravagance of Said Pasha, other English banks were projected whose early experiences were similar to those of

[1] Statement at Annual Meeting, 1864.

[2] Resigned and immediately started an opposing bank, the Société Financière d'Egypte, with the support of Hankeys, in London. This proposed to farm the Government revenues, and sell Egyptian produce on commission.

[3] Annual Report, 1883.

the Bank of Egypt. The most important of these was the Anglo-Egyptian (now a member of the Barclay group), brought out in August, 1864, under the auspices of the Agra and Mastermans Bank (a powerful Anglo-Indian concern allied with London private bankers), and the General Credit and Finance Company, one of the best-known Crédits Mobiliers of the time, which had been promoted by Samuel Laing, ex-Finance Minister of India and celebrated as the "Infant Samuel" of the railway world. The Agra Bank in India wanted an Agency at the half-way house in Egypt and the General Credit served to introduce French capital, which for a long time predominated over English in this bank [1] and in fact secured for it the agency of the Crédit Foncier of France and the Crédit Agricole en Egypte, two of the recognized channels of French deposits invested in Egypt.

The Anglo-Egyptian Bank was formed as a limited company with a capital of £500,000. It secured a footing in Egypt by buying out a firm of Greek private bankers then concerned in the moneylending business carried on for the benefit of the Viceroy, and managed to pay a first dividend of 16 per cent. But barely two years after its foundation, the bank incurred a loss of £205,000 through a syndicate participation in the £3 millions Egyptian loan of 1866, which was a complete failure owing to the crisis of that year. However, the Viceroy, with what now seems perhaps quixotic generosity, pulled the bank out of the fire by taking up half of the loan himself, at the contract price, and by giving the directors £50,000 to recompense them for part of their loss on the remainder. In less than a year, £153,000 was available to meet this loss out of the bank's ordinary *net* profits. In less than two years, a dividend of 12½ per cent was declared, and by 1872 there was a reserve fund of £100,000 and a dividend of 20 per cent. In 1876 the bankruptcy of the Khedive cost the bank its entire reserve fund; but two years later it again figured at a £100,000.

These wide fluctuations, the characteristic experience of all of the first foreign banks in Egypt, are explained by the

[1] G. Antonini, p. 29, *Le Crédit et la Banque en Egypte.*

nature of the bank's business. The bulk of its profits came from discounting Egyptian Treasury Bills and from long-term loan syndicate participations, the short-term bonds being often manipulated with a view to compel their funding upon favourable terms later.[1] Profits thus tended to fluctuate with the credit of the Egyptian Government,[2] this situation lasting until the late 'eighties, when warnings began to appear [3] that

> it is no longer possible to look at the needs of the Egyptian Government, and the heavy rates of interest they used to pay, and were glad to pay, for accommodation . . . The object of this bank must be to carry on a different sort of business altogether.

What sort of business? In 1885, the bank was reported [4] as "gradually but surely emancipating itself from anything like a system of hanging on or being dependent on the doings of the Egyptian Government. We are laying the foundations of a bona fide commercial business."

Apart from branches of banks whose main business was elsewhere, no considerable British competitors of the Bank of Egypt and the Anglo-Egyptian appeared. Amongst the several good reasons for this may be mentioned the strongly entrenched position of the existing banks in a difficult market; the necessity for getting powerful support and influential connections for any new venture in either London or Paris, if not both; the need for a large capital to support possible heavy losses in the early years due to violent exchange fluctuations, and to the uncertainties of the Egyptian Government's credit standing in the European money markets; and last, but by no means least, the need for expert and trustworthy local managers, familiar with the numerous tongues and the somewhat peculiar financial practices of the Courts and marts of the Levant.

Lacking some or all of these advantages, the smaller

[1] Jenks, *Migration of British Capital*, p. 317 (New York, 1929).

[2] "Some people are rather unreasonable," complained the Chairman, with justice, in 1883. "They expect that a bank of this kind, which carries on its business with a country which is the land of miracles, surprises and perpetual vicissitudes, should exhibit the same regularity in its operations as one of those stately banks in Lombard Street."

[3] Annual Report, 1887.

[4] *Ibid.*, 1885.

British banks in Egypt failed to take root. One of these was the Eastern Exchange Bank, established at Liverpool in 1864 by a group of local merchants dealing with the Mediterranean and the East. It proposed to undertake the financing of trade with Egypt and the Far East on a quite insufficient capital of £120,000, and started by establishing a branch at Alexandria at a time when business was severely affected by a cholera epidemic. High Bank rates then ruling in England diminished the profit from one of its chief activities—the purchase of sterling bills in Egypt to be rediscounted in London; and the attempts of the bank to enter the Indian exchange business were not successful owing to the strong position of the existing Eastern banks and the large capital required for commercial credit business with the East. The bank was thus forced to invest most of its capital in Egyptian bonds, and failing a more lucrative business was wound up in 1867. The better-known Bank of Alexandria of 1872, run by a group of Levantine merchants (including the Rallis of London) under the leadership of T. S. Richardson of the Midland Bank and the Metropolitan and Provincial, also had a struggle to secure establishment, and was eventually absorbed by the Anglo-Egyptian in 1885. Previous to April, 1876, when the Khedive finally suspended payment of his Treasury Bills, the creation of an Egyptian *National* Bank had been discussed, the bank to be under the control of three Commissions, from France, Italy and Great Britain. But Lord Derby, at the Foreign Office, was then unwilling to interfere in the internal affairs of Egypt, and as he declined to nominate a British Commissioner the project was dropped.[1]

In 1867, however, the Imperial Ottoman Bank opened its first branch in Egypt, and during the prodigal regime of the Khedive Ismail, the great part of his foreign loans were negotiated in France by the intermediary, usually and notably, of this Egyptian branch of the Ottoman Bank, and the Anglo-Egyptian, the latter still more French than

[1] Cromer's *Modern Egypt*, London, 1908, Vol. I, p. 12. Cf. *Economist*, 4 March, 1876, where the project is put down as just another borrowing device of the nearly bankrupt Khedive.

English. After 1873, Ismail began to borrow from the great Crédit Foncier of France, but again through the intermediary of the Anglo-Egyptian. Meanwhile, the Comptoir d'Escompte of Paris had appeared at Alexandria, and the Crédit Lyonnais, afterwards the foremost foreign bank in Egypt, followed in 1874. During the period of the Dual Control, 1879–83, only one important foreign bank, the Banco di Roma, established itself in Alexandria; amidst the prevailing political uncertainties, the economic situation seemed insecure and unattractive. By 1881 the revolt of Arabi Pasha had assumed serious proportions and widespread disorders soon brought about the dislocation of business in the important Egyptian commercial centres. For the greater part of 1882, ordinary banking business in Alexandria was suspended, and during the bombardment of the City by the British fleet in July all the foreign banks suffered, including the Imperial Ottoman, the Anglo-Egyptian, and the Bank of Egypt.

After the retirement of the French in 1883, the long period of bickering between the French representatives on the Caisse de la Dette and Sir Evelyn Baring proved unfavourable to the extension of fresh banking enterprise, and not very profitable to existing British concerns. A general revival of economic development had to await the Franco-British accord of 1904, after which foreign capital, and especially foreign banking capital, began to flow into the country much more quickly. Both the British banks picked up to some extent, and the Anglo-Egyptian began to cultivate close relations with the British military and naval authorities, and to open branches at naval stations in the Mediterranean, as well as in countries outside Egypt. The Bank of Egypt made considerably slower progress than its rival.

The large French, Greek [1] and German banks now began to open branches in Egypt, together with numerous smaller French banks, and a host of small local institutions, most

[1] The Ionian Bank opened its first Egyptian branch in 1907 as it was unable to employ profitably all of its capital in Greece. The time chosen was singularly unpropitious—the bank was victimized in the 1907 frauds, and adversely affected later by the failure of the Bank of Egypt.

of which failed to survive the crisis of 1907. The Egyptian banking system gradually assumed its modern aspect—that of a heterogeneous mixture of diverse national elements, almost all of the strong and important banks being foreign-owned and foreign-controlled.[1] Before the War, there were no large Egyptian banks, properly so-called, at all. Strict Mussulmans deferred to the Koranic injunction against usury, and either refused to have anything whatever to do with banks, or else left their money with a concern like the Crédit Lyonnais, which in pre-War times owed at least a part of its popularity amongst Moslem depositors to the fact that it paid them no interest on their deposits.

This dominance of the money market by the foreign banks had (and still has) considerable perils for Egyptian financial stability. The banks did not co-operate. Unanimity on any point of banking policy was always difficult to get, if only for the reason that the control of the banks was in a dozen different European capitals. Competition was unusually bitter,[2] and the banks very secretive.[3] The Financial Adviser to the Egyptian Government, in his reports on the Budget, thus constantly referred to the necessity for some kind of State or Central Bank to unify a system made up of such a variety of different national units—English, French, Italian, German, Belgian, Greek and Turkish.

An institution of considerable importance, planned to satisfy this need in part, was created a few years before the Franco-British accord as one of the major financial reforms

[1] Thus Antonini, *Le Crédit et la Banque en Egypte*, Lausanne, 1927, p. 83, refers to Egypt, with some justice, as " une véritable tour de Babel bancaire."

[2] " Les banques des différentes nationalités non seulement ne collaborent pas entre elles, mais ce qui est bien plus grave, elles sont, sauf de rares exceptions, en conflit permanent entre elles, et par conséquent avec les intérêts supérieurs du pays. Quand elles ne cherchent pas à se nuire, comme on pourrait le prouver par des faits précis survenus récemment et aux heures les plus critiques de la vie economique du pays, elles se refusent mutuellement toute collaboration sincère, de qui se traduit par une faiblesse générale et un éparpillement d'energies qui les empêchent d'exercer toute leur influence pour prévenir les crises ou les modérer."—Antonini (*op. cit.*), p. 99, quoting Levi, *La Distribution du Crédit en Egypte*.

[3] It is, for example, quite impossible to find out the total of bank deposits in Egypt. The foreign branch banks do not, and will not, in spite of repeated requests, make their deposit figures public.

of the British occupation, almost comparable to the reform of the currency by Sir Edgar Vincent on the basis of the Egyptian pound. This was the National Bank of Egypt, founded in 1898 by authority [1] and under the auspices of the Egyptian Government, mainly through the efforts of Sir Ernest Cassel, in association with Salvago et Cie of Alexandria and Suares Frères of Cairo. Sir Ernest Cassel took 50,000 of the bank's £10 shares, and the two firms the remaining 25,000 each.

As an embryonic Central Bank in the modern sense, the National Bank made a promising beginning by obtaining exclusive powers of Note issue; according to the Khedival decree of 25 June, 1898, it was empowered to issue notes payable to bearer on demand, and covered half by gold and half by securities,[2] as a definitely exclusive privilege during the fifty-year term of its existence. These notes were not to be legal tender, but were received in payment of Government dues. The bank was controlled by a *conseil d'administration* of 12–22 members, of whom 4 formed a London Committee. The Committee had to be consulted before business [3] of £100,000 or more was accepted, before more capital was raised, before the yearly Balance Sheet was published, and on other important occasions; but it had no greater voting power than is indicated by its numerical strength. The business powers of the bank were extremely wide. It could make agricultural, commercial, and public advances; carry on an issue business; buy and sell foreign exchange; and carry through practically any commercial or financial operation except agricultural and other advances on long term.[4] Government supervision

[1] Cf. Lord Cromer's Report on Egypt, B.P.P., 1899, Vol. CXII.

[2] The securities could be kept in London. This permitted the National Bank to keep Egypt on a sterling exchange standard after 1916, when the regulations were relaxed to allow of almost all the reserve being held in securities.

[3] Presumably loans. The definitive Article 32 (*bis*) of the Statutes reads, "Le Conseil prendra l'avis du Comité de Londres et comptera ses votes dans le cas ou il s'agira de décider une question ou de prendre part à une affaire d'une importance de £stg.100,000 et audessus. . . ."

[4] "Faire pour son compte ou pour compte de tiers ou en participation, toutes opérations commerciales ou financières et industrielles en Egypte et au Soudan à l'exception d'opérations foncières ou immobilières."—Art. 4 of Statutes.

was maintained by approbation of the appointment of the Governor and the two Deputy-Governors, and by the official nomination of two Commissaires to verify the strict observance of the bank's statutes. The bank's profits were subject to a 10 per cent charge for the benefit of a statutory reserve amounting to half the share capital.

From the general impression afforded by these few facts, certain important characteristics of the National Bank stand out clearly. It was not a true State Bank in the sense that its capital was owned and its affairs directly controlled by the State, nor was it a true Reserve Bank abstaining from ordinary commercial business. Because of its British ownership and control, its organization somewhat resembled that of several of the large British overseas commercial banks. Its position has, with the subsequent slight alterations in its statutes, approximated more to that of a hybrid institution, with functions that in advanced countries belong partly to a Central Bank and partly to the ordinary commercial banks. Its activities have in practice reflected the comprehensiveness, and perhaps also the mutual incompatibility, of its wide powers. Outside its Issue Department, which was run on Bank of England lines, its functions have been to take care of large Government balances (from the Ministry of Finance, the Soudan Government, the Mixed Tribunals, etc.), varying from £E.1–3 millions before the War, to lend to the Egyptian and Soudanese Governments, and in addition to do a large and important commercial business. In 1904, it launched out into the creation of foreign subsidiaries, when it formed the Bank of Abyssinia to take over a fifty-year concession from the Emperor for the sole right of doing a banking business in his dominions. The National Bank furnished part of the administration of this concern, and took a fifth of the profits, the subscribers to the capital of £125,000 taking the rest.[1] The agricultural business of the National Bank was also, fortunately, committed in 1902 to a subsidiary institution, the Agricultural Bank of Egypt, founded specially for the purpose by the

[1] In 1930 this bank was taken over by the Ethiopian Government. Cf. *The Times*, 11 Aug., 1930.

National Bank in conjunction with Sir Ernest Cassel and others.

In proportion as Egyptian finances were freed from the crushing restrictions of the Caisse de la Dette, the importance of the National Bank steadily grew, particularly when the Egyptian revenues began to be transferred to it from the rival Crédit Lyonnais, which was Treasurer of the Caisse, and the so-called " Second Exchequer " in Egypt.[1] Suggestions now began to be made that the bank should be divested of its commercial functions, and raised in status to some kind of Reserve Bank. And in 1905, when the Caisse was on the road to extinction, informal negotiations were actually begun between the Ministry of Finance and Sir Edwin Palmer, with a view to establishing more intimate relations between the Bank and the Government, and to imposing limitations on its business so as to bring it into line with the great European Central Banks. It was recognized on both sides that the commercial conditions of Egypt " did not admit of such stringent rules being laid down as are observed by State banks in some other countries." Lord Cromer himself thought

that it is most advisable that an institution should exist in this country which will to a certain extent be what is termed the " bankers' bank " and which in the event of a commercial crisis would be able to afford assistance to other institutions which might find themselves in temporary difficulties.[2]

But although some progress was reported in the following year,[3] no fundamental change was achieved, because the *conseil d'administration* of the bank thought it undesirable (and probably unprofitable, too).[4] It was quite clear that its statutes as they stood before the War (and even at present) prevented the bank from acting as a Reserve in-

[1] As Treasurer of the Caisse, and with very large private deposits, this bank completely dominated the Egyptian money market until a few years before the War. Cf. Kaufman, *La Banque en France*, Paris, 1914, pp. 326, 328.

[2] Lord Cromer's Report on Egypt, B.P.P., 1906, Vol. CXXXVII, p. 32.

[3] Report on Egypt, B.P.P., 1907, Vol. C.

[4] Cf. *Bankers' Magazine*, 1906, II, p. 485 ; Misrahi, *La Banque Nationale d'Egypte*, Paris, 1919, p. 13. Cf. the later project to give the National Bank a *statutory right* to the Government accounts in the *Statist*, 20 July, 1908.

stitution during financial difficulties, as its ordinary business responsibilities were almost as great proportionately as those of any other Egyptian bank which it might be called upon to assist.

These responsibilities came from business connections which were too valuable and too extensive to be readily sacrificed. The bank made advances on securities, and on merchandise, such as cotton, tobacco, ivory, gum, and various cereals, mostly held in its own warehouses all over the country. It looked after the insurance, storage, handling and eventual sale of these goods. It discounted Egyptian import and export paper, but did not undertake the rediscounting of local bills for the commercial banks, partly because these bills did not exist in sufficient quantities, and partly because an application for rediscounting facilities would have been accounted a sign of weakness.[1] It kept normally rather large amounts of money at call in London.[2] These acted as a safeguard against the consequences of a dangerous run on the banks in a country which is notoriously subject to sudden business fluctuations, and they also served in normal times to help stabilize the London exchange, which would otherwise have shown a violent seasonal swing during the exporting seasons—October to April for cotton, and April to July for cereals.

Like all the other foreign banks in Egypt, the National Bank looked to its parent European centre for help in time of emergency; unlike them, it tried to carry on a thriving commercial business, whilst at the same time accepting a certain responsibility for the financial stability of Egypt which they did not acknowledge. In practice, the conservative business policy of the National Bank has certainly permitted it to extend substantial aid to the market,[3] though not on the scale usually considered adequate for a Central Bank; and in the case of important financial failures, such

[1] Misrahi, *op. cit.*, p. 68.

[2] Which subjected the bank to considerable, but unjustified criticism in Egypt. This money when realized, was for practical purposes the equivalent of gold already imported into Egypt. Bullion in transit may be counted as cash in hand by Art. 5 of the bank's statutes.

[3] Misrahi, *op. cit.*, pp. 31–2, 64, gives instances.

as those of the Cassa di Sconto in 1907 and the Bank of Egypt in 1911, it has taken the lead in reconstruction proposals. Its contribution to the stability of the Egyptian financial system was undoubted; but for the anomalies of its constitution no solution was found before the War.

The remaining British banks in Egypt were successful and popular on the whole, except where a certain hostility to English rule helped to drive some business to the French and other foreign banks in the country. The failure of the old Bank of Egypt in 1911 did not reflect as much upon the Anglo-Egyptian and the other foreign banks as was at first anticipated. This failure was really due to the after-effects of the crisis of 1907. The bank then weakened its position by trying to preserve clients affected by the crisis, and by 1911 it was in the awkward position of striving to keep its business going on the basis of £1,500,000 of London acceptances constantly renewed as they fell due. More than half of its liabilities (excluding the capital of £625,000) were on acceptances, which became suspect when they remained outstanding in the same amounts in spite of the contraction of Egyptian business at that time. The noteworthy feature of this suspension was first, the consistently high dividends paid by the bank, and the high, market value of its shares, up to the date of its suspension [1]; and second, the very high position of great respect and prestige which the bank had built up for itself and maintained during the half-century of its existence. The lax conduct of the directors (amongst whom were several famous names [2]) in allowing such an old and reputable British institution to fall into bad ways naturally attracted a good deal of unfavourable criticism.[3]

[1] Dividends for five years before the crisis of 1907 had averaged 15 per cent. For 1908 17 per cent was paid, for 1909 15 per cent, for 1910 14 per cent, and Interim up to July, 1911, 8 per cent (!) The bank's £25 shares (£12½ paid up, £12½ uncalled) were quoted at £22 the day before the suspension and had been as high as £33⅛ shortly before.

[2] Lord Grenfell, R. L. Barclay (of Barclay & Co., Ltd.), and S. Carr Glyn.

[3] The bank seems to have been unfortunate in its directors. In 1887 it had to be re-incorporated under the Limited Companies Acts because the directors forgot to renew the bank's Royal Charter, until a fortnight after it had lapsed (Ann. Report, 1887). After 1907 they must obviously

Widespread serious effects were expected from the failure. Some feared that the combined effects of the bank suspension in Egypt and the Italian invasion of Tripoli in September, 1911, would stir up Mussulman resentment throughout Islam, and perhaps precipitate the Balkan War then almost in sight.[1] The possibility of a banking crisis in Egypt and consequent heavy gold withdrawals from London, where large callable funds were held by the Egyptian banks, was viewed with anxiety. The result was that on the initiative of the National Bank of Egypt, a strong syndicate of the acceptance holders was formed, including the National Bank itself, the London County and Westminster Bank, the Deutsche, the Dresdner, the Swiss Bankverein, the Comptoir National of Paris, and the Austrian Länderbank (interested through their London offices) in order to supervise the orderly liquidation of the old bank's assets. The shareholders' further liability of £12½ was called, depositors and creditors (and eventually the acceptance holders themselves) were paid in full, and after a delay of nine years due to the effect of the War on the liquidation, even the shareholders received a final return payment of only four shillings less than their original liquidation contribution.

(*b*) Turkey Proper

The history of the Constantinople group is practically the history of the Ottoman Bank, incorporated by Royal Charter in 1856. For political reasons this bank was intended to be, and in fact became, something more than a mere money-lending institution for the convenience of the Sultan. Its predecessors however were little more than that. During 1845, a somewhat novel variation was made on the familiar theme when the Turkish Government contracted with

have been almost criminally careless. Cf. the *Economist*, 30 Sept., 1911, endorsing the severe criticisms of the directors by the Official Receiver. The Senior Official Receiver and Special Manager reported in 1912 "it is not considered advisable to institute proceedings against either the directors or the auditors, although it is felt that the directors are under a heavy responsibility" (*Bankers' Magazine*, 1912, II, p. 352). "The complete downfall of the bank from a position of high repute is the worst feature," wrote the *Bankers' Magazine* in November, 1911. The first British bank in Egypt certainly deserved a better fate.

[1] *Statist*, 14 Oct., 1911.

Allion and Baltazzi, two of the chief private bankers of Constantinople, for the bankers to peg the Turkish exchange at 110 (piastres per £1) in consideration of a large annual subsidy.[1] The Banque de Constantinople, which emerged in 1847 out of this arrangement, under the auspices of the Government, did in fact manage to maintain the exchange required and make a profit for a further five years, largely by means of powerful support in France. But the Government and the bank had to support one another mutually, the Government assisting the bank when it was nearly ruined in 1848 by the sudden rupture of its French connections during the Revolution, and the bank obligingly offering at one time[2] to take disused cannon as security for the Government's short-term indebtedness. Against a reckless inflationist policy, however, the bank could only fight a losing battle, and on its liquidation in 1852, with a huge deficit, the authorities now thought of erecting a more substantial institution in its place.

The concession hunters from the European capitals immediately began to show interest. Trouvé Chauvet, bankers of Paris, with E. H. Stanley & Co., of London, wanted to start a new bank with a capital of 200 million piastres to reform the circulation, in addition to keeping the exchange pegged.[3] Baltazzi and the Constantinople bankers countered with another proposal to do the same thing cheaper,[4] and each invoked the support of the British Ambassador, then an acknowledged and forceful power at Constantinople, to influence the Sultan on their behalf. A concession was eventually granted to the former group.

For a time the Crimean War put a stop to these negotiations, but they were renewed after it, with the added assurance given by the charter of reforms. The Govern-

[1] Du Velay, *Histoire Financière de la Turquie*, Paris, 1903, p. 126.

[2] "Only on the energetic opposition of the Grand Master of Artillery was the Government persuaded to renounce this project."—Du Velay, *op. cit.*

[3] Letter from Trouvé Chauvet to Lord Stratford de Ratcliffe, 4 Mar., 1853, F.O. 195/460. This was a firm of international bank promoters. Cf. their negotiation of a concession for a State Bank of the Argentine, cited in Pinero, *La Moneda en la Argentina*, Buenos Aires, 1921, p. 224.

[4] Letter of Th. Baltazzi to Lord Stratford, 8 April, 1853, F.O. 195/460.

ment could now make its choice amongst several proposals, including one put forward by an English group. English interest had been much stirred in the commercial and financial prospects of a regenerated Turkey, and it was felt that the altered political situation should bring about closer economic relations than before.[1] The Turkish Government was also disposed to favour English pretensions. The Turkish War Loans had been subscribed for the most part in England, although floated in Paris as well, and the Government had recently disagreed violently with the French Ambassador about the disposal of the Moldavian provinces. Moreover, the English group was very influential. It was led by A. H. Layard, the famous Turcophil, afterwards Under-Secretary in the Foreign Office, and British Ambassador in Constantinople; and it included George Glyn and Arthur Hankey, two of the principal private bankers in London, besides the Chairman and Deputy Chairman of the Union Bank of Australia, then one of the most important of the British overseas banks.

One of the first acts of the group had been to buy out Trouvé Chauvet, concessionaires of a *firman* of the Sultan authorizing the formation of an "Ottoman Bank" with sole right of note issue in the Turkish Dominions.[2] The concession was never used. Instead, the English group chose a more cautious procedure. Their prospectus, issued early in 1856, advertised shares in the "Ottoman Bank (liability limited)" to be incorporated by Royal Charter with a capital of £500,000, and referred temperately to the essential importance to Turkey of "ample means for carrying on with safety and economy the banking operations connected with her enlarged commercial position," without saying anything of the actual powers to be sought by the bank. Even before the Treaty of Paris was signed, Layard, Glyn and

[1] "Constantinople, it was correctly predicted, would become largely dependent upon the London market. The corn trade of the Danube, the fruit and spice trades of Asia Minor, and the cocoon and madder trades of Syria, might all be facilitated by banking operations." *Address to the Shareholders of the Ottoman Bank on its Present Position*, Anon., London, 1860.

[2] Articles of Agreement, 9 Feb., 1856, between A. Hankey of London and E. H. Stanley and Trouvé Chauvet of Paris. Copy in F.O. 195/460.

Hankey proceeded to a conference in Paris (at which Lord Clarendon, British Foreign Secretary, and Lord Cowley, British Ambassador, were present) with emissaries of the Turkish Government, and asked for official Turkish approval of their bank project. The object was to represent [1] to the Turks that under existing treaties, it was open to any British subject to carry on a commercial business in the Ottoman Dominions, without reference either to the Turkish or to the British Government. The group nevertheless proposed to seek a Royal Charter from the Government in England in order to obtain limited liability, "without which, as Mr. Layard is aware, no large amount of capital will ever be subscribed by British capitalists." And reference to the Turkish Government was "consequent upon a rule of the British Government not to give that which may have the appearance of being their special sanction to any commercial undertaking without (as a matter of courtesy) communicating with the Government" concerned. The deputation had to make it clear that approval of their bank would confer no special privilege upon it or prevent the Ottoman Government from starting its own, but they had to urge that official approval was in the Turkish interest, as the Government would then obtain "as it were a moral right to ask the aid of the bank in carrying out any financial operations."

This extremely circumspect attitude of the Ottoman Bank directors was partly due to pressure from the British Government, which, before incorporating the bank, had suggested [2] in fact that as the grant of charters to British companies operating in *foreign* countries "might be open, on general grounds, to question" it would be advisable to explain their exact significance to the Ottoman Government, making it quite clear that the bank itself, if constituted,

will be alone responsible to the Turkish public for the fulfilment of its engagements, and that the fact of its acting under the

[1] "Memorandum of the Proposed Application to the Turkish Govt. Authorities for Use of the Chairman and Committee Proceeding to Paris," dated 23 Feb., 1856.—T.1, 1856–73, consulted by special permission.

[2] Letter of Treasury to F.O., 29 Feb., 1856.—T.1, 1856–73.

authority of a Royal Charter will in no degree give a claim against H.M. Government in respect to any consequences of its acts.

At the same time, however, the directors themselves were anxious to start under the best auspices, while reluctant to ask for any special privilege, such as a monopoly of note issue rights. Layard, in a personal letter to Lord Stratford,[1] wrote that he had joined the substantial names on the Board "with the conviction that the undertaking will prove of great benefit to Turkey." But

> we have determined upon commencing with the limited business of a private commercial bank, not debarring ourselves however from either increasing our capital, or from entering hereafter into more extensive financial operations in connection with the Turkish Government. We have preferred taking this course to embarking at once in engagements the results of which might be doubtful in the present state of public affairs and of Turkish finance, and through which we could not, without much local knowledge and experience, see our way.

This was a slighting reference to the much more definite plans of other promoters, "proposals made rather with a wish to speculation than founded upon any adequate knowledge or mature investigation," which the Ottoman Bank could not honestly make, nor the Turkish Government wisely accept.

The British representations finally had the desired effect. The Sultan gave his formal sanction to the project,[2] and a draft charter modelled on that recently granted to the Bank of Egypt was prepared and passed by the British Government on 24 May, 1856. It incorporated the Ottoman Bank "for the purpose of carrying on under the management of a Court of Directors in London the business of banking in Constantinople with Branch Banks in any other part of the Turkish Dominions except in Egypt."[3] The capital was to be £500,000, with "double liability," £1,500,000 of additional money to be raised later if required.

[1] Dated London, 22 Feb., 1856, F.O. 195/460.
[2] Letter of F.O. to Treasury, April 5, 1856.—T.1, 1856–73.
[3] Patent Rolls, Chancery, 19 Vict., Part V, No. 6.

In all its important provisions, this charter was exactly similar to that of the Bank of Egypt.

The battle was by no means over. From the time of its incorporation until 1863, when the Ottoman Bank became virtually the State Bank of Turkey, there was a constant struggle between various interested national groups to secure the exclusive bank concession which it was generally realized the Government would be finally obliged to grant. Before the Ottoman Bank got its charter, a second British group was formed which, though it lacked strong banking representation, included some substantial names famous in other fields. At its head was Sir Joseph Paxton (a protégé of George Hudson, the railway king), whose lowly origin, from "a decent and intelligent family occupying one of the Woburn cottages of the Duke of Bedford,"[1] and meteoric rise to fortune was characteristic of the early railway age. With him were associated Samuel Laing, Chairman of the London and Brighton Line, a railway magnate already noticed, Mark Hunter, Chairman of the Commercial Bank, Henry Coke of Norfolk, Uzielli, a partner in Devaux & Co., the finance company, Thomas Brassey the contractor, and Abraham Darby of the iron works at Ebbw Vale. This group was clearly fishing for public works (and particularly railway) contracts in Turkey.[2] Their "Imperial National Bank of Turkey" was launched with a nominal capital of five millions, and the services of the first dragoman at the British Embassy were secured to push the claims of the new group at Constantinople.

Rumours of the competitive pleading of the interests at the Court of the Sultan soon reached the City, at a time when there was general uneasiness about joint stock banking prospects. Those who realized that, according to the usual Turkish custom, the concession would go to the highest

[1] T. H. S. Escott, *City Characters*.

[2] The railway contracting business in England was now at the stage when the great contractors, of the type of Thomas Brassey and Morton Peto, could keep their huge organizations together only by employing numerous agents to comb all the likely countries of the world for concessions.

bidder, feared the worst.[1] Towards the end of 1856, Ottoman Bank shares fell to 25 per cent discount.

In December, 1856, the Turkish Government communicated confidentially to the British Ambassador its own ideas on the scope of the proposed bank concession. The bank, endowed with exclusive issue privileges for thirty years, would be provided with a capital of £10 millions to £12 millions sterling, of which £8 millions would serve for the withdrawal, on behalf of the Government, of the debased coins and over-issued paper money in the Turkish Dominions. On this proportion the Government would pay 6 per cent interest, and would have the right to appoint the Governor of the bank and a "limited number" of directors.[2] Lord Stratford, already friendly to the Layard group,[3] showed the letter to Falconnet, the local Ottoman Bank director,[4] who was very critical of the whole scheme. The capital was much too large: 6 per cent was not enough, with money standing at 6½ per cent in London, and no guarantee of pledged revenues: and no conceivable body of European shareholders would tolerate Government nominees as directors.[5] But these conclusions seemed a little premature at first. Although in the fifteen months of negotiations which followed, the Ottoman Bank stood resolutely aloof, the Paxton group proved more conciliatory, and on 5 March, 1857, a definite concession in their favour was finally ratified by the Sultan. This provided for a "Banque de Turquie," administered from a Head Office in Constantinople by a Governor and Deputy-Governor (appointed by the Turkish Government), 4 censors (of whom 2 were Government nominees), and 24 Regents, somewhat on the

[1] Cf. the criticism of granting the concession "to any person who will make the most reckless bidding for it, instead of selecting the most solid financial names that could be attracted" in *Bankers' Magazine*, 1856, p. 662.

[2] Letter of Rechid Pasha to Lord Stratford, 28 Dec., 1856, F.O. 195/460.

[3] Layard had worked unofficially with Lord Stratford in Constantinople in 1853. See *Autobiography and Letters*, edited by W. N. Bruce, London, 1903.

[4] A professional concession-hunter and bondholders' representative abroad, previously very active in the latter capacity at Buenos Aires, Lisbon, Madrid, and in Mexico.

[5] Letter to Lord Stratford, 28 Dec., 1856, F.O. 195/460.

lines of the Bank of France. Out of its £7 millions capital the bank would have to retire a large part of the depreciated paper money at par as before, but could substitute its own notes, which were to be henceforth the sole legal tender paper currency, backed by a one-third specie reserve, and issuable up to a total equivalent in Turkish currency of £15 millions. It is noteworthy that the Government, in order to facilitate the ordinary banking business of the new institution, undertook, on its part, to promulgate new laws for the more expeditious recovery of debts.[1]

All difficulties now seemed settled. But it soon became apparent that the task of getting £7 millions of capital from Western Europe to be used under these conditions in a corrupt and backward State, would be a hopeless one from the start. The practically unlimited field of operations of the bank, and the exclusive privileges granted, were not a sufficient bait. The Ottoman Bank had, from the beginning, made no secret of its conviction that the plan was "quite beyond the legitimate scope and action of a National Bank."[2] Rothschilds and the Constantinople bankers also rejected it. It was felt that the Turkish Government would have altogether too important a voice in the bank's affairs,[3] and the concessionaires came in for much criticism for having yielded to Rechid Pasha (much against their will) on the question of the location of the Board of Direction, which everyone felt ought to be in London, immediately responsible to the English shareholders. After unavailing efforts to get subscriptions, Wilkin, the London secretary of the Paxton group, reformed the syndicate in 1859 on more modest lines, brought in several London merchants like Russell Ellice, Rodocanachi and Ralli, and a number of Constantinople bankers, and reconstructed the Bank of Turkey with a capital of £1 million only. A new concession conferred the exclusive right of note issue as before, and was also similar in other fundamental respects to the previous one, except that the obligation to redeem depreciated paper

[1] Details of the final concession in *The Times*, 19 March, 1857.
[2] Annual Report, 1856.
[3] *The Times*, 15 April, 1857.

money, at which London capitalists had taken fright before, was now omitted.[1] The new bank, in fact, was to begin operations three months after the withdrawal of this paper money by the Government out of the proceeds of a loan of £5 millions raised in London in 1858.

Unfortunately the inadequate and corrupt Turkish administration was quite incapable of affecting this desirable object. The Bank of Turkey's prospectus appeared in December, 1859, at a time when the position of Turkish bonds in the market made a successful issue in any case very doubtful, and the series of impressive but totally ineffective proclamations issued from Constantinople in the following January, ordering the withdrawal of the paper money, influenced the situation hardly at all. Investors in general had by this time not unnaturally concluded from the efforts made by the Ottoman Bank, Rothschild's, Paxton's, the Crédit Mobilier group, and the Galata bankers (to mention only a few of the competitors), that the entire Turkish bank scheme was objectionable in any form. The Turkish Government, desirous of driving up the price of its favours, and anxious to give an impression of impartiality, encouraged this competition. The groups found themselves bitterly hostile on most points but " brought to harmonious action on the one grand question of ridiculing and opposing the special scheme that seemed for the moment uppermost." [2] Bank of Turkey shares consequently fell to a heavy discount soon after their issue, the concession hung fire on account of the non-withdrawal of the paper money, and more paper had to be issued [3] as a temporary remedy for the condition of Turkish finances, then progressively and rapidly deteriorating.

At this stage, the Sultan ordered a financial inquiry, on which it is noteworthy that Falconnet, an Ottoman Bank director, was asked to sit as British Government representative, and, more sorely pressed than ever for ready money, turned to the notorious Mirés, for whom the Bank of Turkey was London agent. But the disastrous failure of the

[1] *Bankers' Magazine*, 1860, p. 81. [2] *The Times*, 10 July, 1857.
[3] In violation of the terms of the concession.

Mirés loan, and the arrest of Mirés, forced the Sultan to issue yet more paper money to satisfy his more urgent creditors. It became obvious that the Bank of Turkey was doomed. Hopelessly compromised by the Mirés *débâcle*, their concession rendered valueless by the action of the Turkish Government in issuing more paper money, the directors indignantly refused a new concession giving no exclusive privileges, and decided to wind up their concern.[1]

Matters were now playing into the hands of the Ottoman Bank. Since its formation, the bank had worked up a useful connection in Constantinople, in spite of opposition "marked by an amount of unscrupulousness, intrigue and mystification which was altogether unknown in England."[2] It had gathered a reliable staff with the necessary language qualifications, and sufficient familiarity with the somewhat peculiar business methods of the Orient, and had opened branches at Smyrna, Beyrouth, and Galatz in the first year. Its agents at Constantinople were instructed to keep in constant touch with the British Ambassador, and to afford him any required information about the bank and its activities.[3] Its popularity in the City of London was attested by the fact that within forty-eight hours of the opening of subscription lists for its 25,000 shares, 80,000 applications were received. Its indefatigable Chairman had bombarded the Turkish Government with searching criticisms of rival projects and skilful presentations of his own. The proposal of the Galata merchants for a State bank, he urged, could not succeed. They could never raise the money.[4] And real reforms would never be advocated by those who had built up such colossal fortunes out of the financial disorders. The Rothschild's proposal was equally objectionable.

En se mettant entre les mains de la maison R., la Porte ne devient qu'une succursale de cette puissante association de famille . . . qui est aussi exclusive qu'envahissante. . . . Ce

[1] Directors' Report, *Bankers' Magazine*, 1861, p. 820.
[2] Annual Report, 1860.
[3] Letter of Layard to Lord Stratford, 22 Feb., 1856, F.O. 195/460.
[4] *Ibid.*, Letter of Layard to Rechid Pasha, 13 Dec., 1856.

ne sera donc plus une Banque Nationale mais un Bureau de la maison R. établi dans une Capitale de plus.

The Bank of Turkey project would also fail, for lack of local experience. The best plan would be to have a bank promoted by men with the confidence of European capitalists, in co-operation with representative Turks who would give it its " national " character. The administration might be at Constantinople, with a Turk of exalted rank at the head as nominal Supervisor, but the actual managers would have to be Europeans, and there would finally have to be strong Committees of Direction sitting in London and Paris, responsible to the shareholders and in full, effective control of the bank's funds. " Il est absolument nécessaire," urged Layard, " de prévenir le cas que les membres du Comité nommés à Constantinople puissent obtenir une majorité absolue de votes dans la direction des affaires."

In the carrying out of such a plan, the Ottoman Bank was clearly the proper instrument. It was esteemed at home, its Royal Charter had been granted with the approval of the Sultan himself, and it was well established in Turkey. In order to make sure of the large means necessary, and to prevent all " rivalries, jealousy and conflict," [1] the bank had formed the Compagnie Anglo-Française in conjunction with French interests, in readiness to undertake the foundation of the National Bank.

In fact, Layard had been somewhat troubled over French rivalry for the bank concession, especially from quarters connected with the now famous and powerful Crédit Mobilier. But in view of the political position of France at Constantinople, her part in the Crimean War, and in the subsequent reform projects, he could hardly have expected the grant of exclusive rights to an English group, without a challenge from Paris. In a mission dispatched by the Ottoman Bank to Constantinople in 1856, for the negotiation of Turkish loans in Europe, a Paris banking firm, Donon, Aubry and Gautier, was represented, as well as Thomson, Bonar & Co., a Bank of England house of merchant bankers. Even then, " it was evident that great efforts were being made in Paris

[1] Letter of Layard to Etham Pasha, 18 Dec., 1856, F.O. 195/460.

to establish not only a National Bank in Turkey, but at the same time to obtain every concession of value and political importance." [1] The object of the mission, with its French representation, " was to obtain as far as possible the aid of French influence, without at the same time losing the complete control over all operations undertaken by the Ottoman Bank." A proposal of E. Pereire, one of the famous founders of the Crédit Mobilier, had just then been made, and contemplated " the entire fusion of the Ottoman Bank into the Imperial Turkish Bank to be founded by himself and his colleagues," one-third of the capital and a minor share in the direction going to the Ottoman Bank. Layard refused to discuss any proposal which was not based upon the maintenance of the Ottoman Bank as an independent British chartered bank under English control, and a further proposal involving two separate banks, French and English, with an exchange of shares, and joint responsibility for Turkish financial arrangements, was equally rejected. The Ottoman Bank was sustained in this attitude at first, since " Prince Napoleon has expressed to Mr. Layard his approval of his scheme, and has promised his active support," and it was also known that the Grand Vizier was strongly opposed to the Crédit Mobilier having any hand in Turkish finances.

In 1861, however, Layard had resigned his Chairmanship of the bank on being offered the Under-Secretaryship of Foreign Affairs by Earl Russell, and shortly afterwards, the remaining directors overcame their scruples. With the collapse of the Mirés loan, the financial condition of Turkey had gone from bad to worse, and in response to an official request the British Government sent out as Financial Advisers, Lord Hobart (who had already been officially employed in Turkey to supervise the application of the 1855 loan) and Mr. Forster of the Board of Trade. Their Report [2] noted how much public confidence would be increased " if the revenues of the Empire were paid into a National Bank, founded on a secure and solid basis," and if the public

[1] *Ibid.*, Memorandum attached to letter of Layard to F.O., 3 April, 1856.
[2] B.P.P., 1862, Vol. XCV, p. 40.

balances were kept there instead of at the Treasury. Lord Hobart personally considered the establishment of the National Bank "an improvement of very urgent importance." [1] It would solve the difficulty of borrowing in anticipation of revenue, and would, in many other respects, contribute to a healthy state of the national finances. The Government, fully aware of this, was at that time "actively engaged in the promotion of such a bank" with English and French co-operation.

The new, and immensely strong, Ottoman Bank syndicate thus referred to now included the Crédit Mobilier, the Comptoir d'Escompte, Hottinguer, Stern, and several other well-known Parisian private bankers.[2] The "battle of the concessions" thus began again, with the Turkish Government hesitating over the Ottoman Bank proposals, dallying at the same time with Fruhling and Goschen and Devaux & Co. in London,[3] resisting adroitly the indignant claims of the now discredited Bank of Turkey, and relying in the meantime on the moneylending facilities of the Union Financière of local Constantinople bankers.[4] But the Ottoman Bank group this time could bring immense political and economic pressure to bear. Lord Hobart urged that "the continued influence of the British and French Governments" [5] should be used to exclude rivals from the negotiations in favour of the Ottoman Bank. He and Forster, now supervising the withdrawal of redundant paper money from circulation by means of the £10 millions loan of 1862 (for the extraordinary success of which the Government was largely indebted to the Ottoman Bank), used all of their considerable influence to further the Ottoman Bank claims with the Turkish Government.[6] But the negotiations were

[1] B.P.P., 1863, Vol. XLIV. Letter to Earl Russell, 27 Nov., 1862.

[2] It was formed 15 Nov., 1862, after the Ottoman Bank had made the initial approach to the Turkish Government. G. Young, *Corps de Droit Ottoman*, Vol. V, Oxford, 1906.

[3] *The Times*, 21 Nov., 1862.

[4] Du Velay, *op. cit.*, p. 189.

[5] Letter to F.O., 6 Oct., 1862, F.O. 78/1790.

[6] This, in view of the late Chairman's position at the Foreign Office, caused some sharp comment. Layard on his return to the Chairmanship in 1867, denied that Government pressure was used. "What I always said to the Turkish Government was it is for you to choose."—Annual Report, 1867.

protracted and the Turks stubborn on several important points, while lavish of promises to each of the interested parties.

Moreover, angry protests were now being made by the directors of the old Bank of Turkey (who had unsuccessfully tried to buy up a controlling block of Ottoman Bank shares) that since they already held an exclusive bank concession which was to come into force three months after the withdrawal of the Turkish paper money, " neither in good faith nor in law " [1] was it open to the Turkish Government to treat with anyone else. The Turks refused to take this complaint seriously, however, and since they would not hear of arbitration either, a little war of pamphlets and circulars broke out between the representative disputants in the City. The Ottoman Bank caused general irritation by circularizing disparaging comments on the " defunct concession " of the Bank of Turkey, the Turkish Government's dignity suffered somewhat from official hole-and-corner tactics employed to the same end,[2] and the whole unsavoury affair seems to have left a very bad impression in the minds of investors. " So discordant with our usual habits has been every feature of the case," wrote *The Times*,[3] " that it may be hoped the principal impulse will be found to have been imparted by the Paris Crédit Mobilier " ! There certainly seems no clear ground for the Turkish Government to have escaped so lightly from its agreement, and some cause for regret that the Ottoman Bank took advantage of this, especially as it was alleged that the bank acted in concert with the Turkish Government in trying unsuccessfully to buy back the so-called " defunct " concession before it was disavowed by the Government.[4] At any rate, the value and importance of this bank concession appears very clearly from the lengths to which the promoters were driven in the struggle to obtain it.

[1] Letter of Rodocanachi (one of the promoters) to *The Times*, 21 Nov., 1862.

[2] A further letter, *The Times*, 25 Feb., 1863.

[3] 25 Feb., 1863.

[4] *The Times*, 27 Feb., 1863, quoting a letter from an associate of Rodocanachi.

When the Turkish Government closed the matter by refusing to be cited in the English Courts, there still remained the difficulty of the form of the final concession to the Ottoman Bank. The desire of the Turks that the chief concessionaires should be resident in Constantinople and that meetings of the Board should be held there was obviously an impossible condition—the confidence of European investors would at once have been forfeited. "Committees of Direction" at London and Paris (the London one being appropriately headed by Lord Hobart) were thus at length agreed upon, and in spite of strenuous efforts on the part of Fuad Pasha, the Foreign Minister, to ensure a majority of resident directors at Constantinople controlling completely impotent European Committees, the Turks had finally to consent to 20 of the 25 directors being allocated to London and Paris in equal proportions.[1] An unexpected difficulty arose from a protest by the British Foreign Office against the bank being allowed to do a "mercantile business," [2] this being expressly forbidden to overseas banks incorporated by Royal Charter.[3] Forster explained [4] that the practice in Turkey was for bankers to advance on the security of goods consigned to the bank or its agents, with a margin of 50 per cent, ordinary discount business or advancing on dock warrants being impossible for lack of such documents. "If the business were tied down to mere Lombard Street operations," he wrote, "no bank could sustain itself in Turkey, and the National Bank delegates state that under such limitations they should withdraw their support from the proposed establishment." A way was found out of the difficulty by the dissolution of the chartered Ottoman Bank, and the creation of a new Imperial Ottoman

[1] Letter from Forster to F.O., 22 Jan., 1863, F.O. 78/1790. Forster suggested that with a small number of directors at Constantinople, the Ottoman Government "can satisfy public opinion" and the wishes of the concessionaires as well.

[2] The original Basis of Concession had stated: "La Banque aura le droit de faire toute opération qui ressort des fonctions d'une institution de banque et de commerce." And it was also empowered "de se charger de l'achat et de la vente de merchandises pour compte de tiers."

[3] Sec. 11 of the Colonial Banking Regulations of 1840, quoted in *The Imperial Banks*, p. 35.

[4] Letter from Forster to F.O., 5 Feb., 1863, F.O. 78/1790.

Bank with headquarters in Constantinople, thus freeing the business from the restrictions of the Chartered Banking Regulations. But it seems very likely that the old Ottoman Bank, as well as the new institution, did in fact carry on a mercantile business, in spite of the clear prohibitions contained in its charter.[1]

After several minor points had been settled, the *firman* incorporating the Imperial Ottoman Bank was finally signed on 4 February, 1863.[2] It placed the bank under the High Protection of the Sultan, and under the supervision of his Government, which would appoint a High Commissioner "to take cognizance of the operations of this institution," without however having the power to interfere with its administration. Its capital was fixed at £2,700,000 in bearer shares of £20 or Fcs. 500 each, of which the English group took 80,000, the French 50,000, and the Turkish Government 5,000.[3] Its Head Office was placed at Constantinople, and here and at the branches the Government guaranteed military protection if necessary. In addition to full powers of doing an ordinary commercial banking business, the bank received the exclusive privilege of legal tender note issue, against a 50 per cent specie reserve, the Government promising to cease issuing its own notes during the thirty-year period of the concession. It became the Government banker and financial agent, receiver of a large proportion of the public revenues, chief Government representative in foreign loan negotiations, and occasional lender to the Treasury in advance of taxation receipts. In the words of Sir William Clay, the first Chairman,[4] the new bank commenced its career under circumstances of almost unexampled advantage. Uniting the experience, and the good name of the old Ottoman Bank and the wealth and

[1] Cf. *Address to the Shareholders of the Ottoman Bank*, London, 1860: "It was charged against us . . . that in the port of London, consignments, not of piastres, but of sponges and drugs and such like, are continually to be found entered on our behalf, and that our agents are often to be found on Change, making sales and bargains and even competing in the sales with diamond merchants."

[2] Text in G. Young, *op. cit.*, Vol. V.

[3] "La Banque Imperiale Ottomane," G. Poulgi-Bey, *Annales des Sci. Pol.*, May, 1910.

[4] Annual Report, 1864.

established reputation of some of the best-known French bankers, it was enabled at once to take a position of power and eminence at Constantinople, based on an admirable existing organization, an able and trustworthy staff, and branches and ramifications extending throughout the Turkish Empire. The shareholders saw the functions of their bank in its relation to the Turkish Government as "analogous to those discharged by the Bank of England towards the British Government"; they expected, not without some justification, "that their operations would be useful to the people of Turkey and profitable to themselves." [1]

From 1863 until the end of the century, the Imperial Ottoman Bank had practically an open field with no competition, except from small institutions founded mostly to lend to the Ottoman Treasury. One other "Bank of Turkey" appeared in London in 1865, but was liquidated barely a year later, on account of insufficient subscriptions for its shares. The moving spirit was Lewis Farley, manager of a second-rate finance company dealing with Turkey, and at one time director in Alexandria of the Société Financière d'Egypte, the Pasquali concern. Farley wrote enthusiastically about the banking prospects in Turkey,[2] and produced numerous memorials from the local merchants at various important ports and trading centres in the Near East.[3] But his financial methods were somewhat peculiar,[4]

[1] In the seven years of its existence, the old Ottoman Bank paid average dividends of 10 per cent. The new bank paid an average of 12 per cent for a similar period. As to its usefulness to Turkey, it seems to have charged high rates for its services at first. "The Imperial Ottoman Bank is not so beneficial to traders as it might be. The rate of interest charged is 12 per cent, and at the same time a material guarantee is demanded. The Bank appears to enter too frequently into commercial undertakings to the detriment of traders."—British Consular Report from Smyrna, B.P.P., 1870, Vol. 64, p. 81. As financial intermediary for Turkish public borrowings, the bank has had to meet much criticism for not using its great influence to curb Government extravagance at a time when all knew that Turkey was heading for bankruptcy. Cf. the very sharp contemporary criticisms quoted by Blaisdell, *European Financial Control in the Ottoman Empire* (pp. 68–70), New York, 1929.

[2] Cf. *Banking in Turkey*, J. Lewis Farley, London, 1863.

[3] Usually supported by the local British Consul. The Consul at Aleppo, for instance, called Farley's projected bank "a felicitous idea." Its promoters "must make a fortune with common prudence."—*Bankers' Magazine*, Jan., 1860.

[4] Cf. Liquidator's Report quoted in *Bankers' Magazine*, 1867, p. 708.

even for those times, and he failed to inspire any public confidence in his projects. Of the other rival institutions, the Austro-Turkish Bank founded in 1872 by the Anglo-Austrian Bank and several Constantinople bankers, lasted barely a year; and the Bank of Constantinople founded at the same time by Bischoffsheim and Goldschmidt, was partly owned by the Imperial Ottoman, and was eventually absorbed by a French Crédit Mobilier operating in Turkey.[1]

After the constitution of the Imperial Ottoman Bank in 1863, the Turkish Government turned more frequently than before to foreign loans as a staple source of revenue, and its credit in consequence sank lower than ever on the European markets, where its loans had to be issued at fantastic prices (e.g. the 1873 Loan of Fcs. 694 millions at 56½) and, towards the end, without even the intermediary of the bank, which nevertheless continued to make short-term advances in conformity with its statutes. The gradual depreciation of the Government credit naturally affected the Ottoman Bank somewhat, though its independent standing, well understood in Europe, saved it from the worst effects. The Government's failure to undertake the reform of the Turkish monetary system also involved the bank in serious risks, but at the same time left it with considerable avenues of profit. Dealing in the many varieties of Turkish and foreign monies circulating in the country, providing exchange on its widespread network of branches, shipping gold and silver bullion to and from the agricultural districts in conformity with crop movements, collecting a great part of the Government revenues, and providing debt service payments abroad, the bank was in the best position to make substantial profits on local and foreign exchange,[2] and to exercise a dominant influence on the bullion markets (especially silver) in Turkey. Its commercial functions, however, were always considered, in the early years at any rate, of secondary importance in relation to its main duties

[1] Du Velay, *op. cit.*

[2] According to Biliotti (*La Banque Imperiale Ottomane*, Paris, 1909, p. 182), " la Banque fait la loi aux marchés de change à Constantinople."

as financial agent of the Government. And these duties were much broadened by a special convention, redefining the relation of the bank to the Government, which was agreed upon in 1875.

On paper, the bank's position *vis-à-vis* the Turkish Government, was much strengthened. From being merely *agent financier* of the Government, it was now promoted to be *Trésorier Payeur General*, collecting not only the Constantinople revenues but those of the whole country,[1] and it was entrusted with the sole right of negotiating Treasury bonds.[2] The bank was also given representation on the newly formed Turkish Budget Commission. In recognition of the increased amount of Austrian capital which had found its way into Turkey after the Franco-Prussian War, 6 Austrian directors were added to the 10 English and 10 French ones, and a separate Vienna Committee was provided for.[3] The object of this new magnanimity on the part of the Turkish Government was of course perfectly plain; it was to improve the public credit and the prospects for further European borrowing. But as might have been expected in view of the previous record of the Government, this policy met with but scant success. The bank was given no real power of supervision over the Government finances. The Budget Commission sat infrequently, and without any facts to guide it, and large extra-Budget expenditure continued to be made. Each province of the Empire maintained its financial independence as before, and even the new authority of the bank to collect the revenues thereof proved of little

[1] Art. 13. "Le Gouvernement s'engage à verser dans la caisse de la Banque à l'exclusion de tout autre établissement tous les revenues quelconques de l'Empire. La Banque à l'exclusion de tout autre etablissement sera chargé du payement de toutes les dépenses publiques." For the full terms of the Convention of 1875, see Young, *op. cit.*, Vol. V.

[2] Art. 14. "La Banque sera chargé pour le compte de l'Etat et a l'exclusion de tout autre établissement, de la négociation, soit en Turquie, soit à l'etranger, des bons du Trésor et autres effets de trésorerie qui pourront être émis par le Gouvernement pour suppléer aux retards dans le recouvrement des revenus."

[3] Austrian capital had been represented (apart from the short-lived Austro-Turkish Bank) by the newly formed Banque Austro-Ottomane, but following the crash of 1873 in Vienna, this bank was amalgamated with the Imperial Ottoman in 1874. The Vienna committee provided for subsequently was never formed.

effect in practice. More paper money was issued despite an express undertaking in 1875 to the contrary, and some of it was put out through the Ottoman Bank itself. In the event, the large promises of the Turkish authorities proved worthless and illusory, as they had done before, and the long-expected Turkish default, which no financial artifice or political subterfuge could further postpone, came at last in 1875.

The default came at a most inopportune moment. The bank was not consulted about it. The directors confessed surprise that, as the State bankers of Turkey, they had not been informed beforehand. In their somewhat embarrassing position as contractors for many previous Turkish loans, they protested vigorously against a policy which could only have the effect of damaging the national credit still more.[1] But the bank's hostility was a factor of secondary importance in a political situation at that time full of danger. Insurrection in Bosnia and Herzegovina, disturbances in Montenegro, war with Serbia, and finally war with Russia,[2] plunged the country into overwhelming financial difficulties at a time when the national credit was at its lowest in Europe. In this situation, fraught with such serious consequences for the creditors of Turkey, the bank might conceivably have stood aside whilst the Turks worked out their own political and economic salvation. But its best interest was clearly to throw in its lot with a Government on which it depended so much for support, and, counting on European intervention to prevent the utter disintegration of the Empire, to proffer such financial support as would preserve the Government and ensure the future continuance of its favour. The bank therefore assisted not only by financing the mobilization of troops, but, in the dark days directly after the fall of Plevna, by subscribing for the whole of the Defence Loan of 1877, when no European offer could be secured. The value of its help at this critical stage was

[1] Cf. Biliotti, *op. cit.*, p. 49.

[2] It is noteworthy that from Russia had come diplomatic opposition to the 1875 Convention, probably inspired by the consideration that the Russian aggressive policy at Constantinople counted on persistent financial disorder in Turkey.

widely acknowledged,[1] and its loyalty was substantially recognized in a convention which the Porte concluded with its local creditors in 1879 (the bank being the principal amongst them), ceding them the management of certain revenues, and the administration of the salt and tobacco monopolies, under an arrangement which afterwards formed the model for the Turkish Public Debt Administration of 1881.

Although the constitution of the bank remained fundamentally unchanged after this, its relations with the Government became closer. It continued to float Turkish loans abroad, advancing considerable sums to the Government against their proceeds, and receiving substantial allocations itself at a preferential rate. In 1886, the war with Bulgaria found the bank ready with advances for the levy of troops and the purchase of supplies. The suppression of the Armenian and Cretan rebellions of 1896 was partly financed by the bank. In 1898, the payment of the Turkish indemnity to Russia, as agreed by the Treaty of San Stefano, being in arrear (not for the first time), the bank stepped into the breach, and by paying the agreed amount to a Russian Government now thoroughly exasperated by Turkish intransigence, got the Turks out of the awkward situation created by the refusal of the Ottoman Public Debt Administration to finance these arrears. An empty Turkish Treasury after the war with Greece of 1897 again saw the bank advancing on the security of the indemnity yet to be paid by the Greeks. And when Turkey was eventually forced by the Powers to concede some measure of reform, and particularly financial reform, in Macedonia, it was the Ottoman Bank which was called in to perform there the function of a Treasury and Budget Commission, in order to assure the Powers of honest administration, and at the same time to avoid injury to Turkish national susceptibilities.

Its close connection with the Turkish Government

[1] "La Banque Imperiale Ottomane et les banquiers de Galata ont ainsi non seulement fourni au Gouvernement les moyens de la mobilization mais en lui facilitant le repatriement des troupes après la guerre, l'ont sauvé des plus graves conséquences de la défaite."—Young, *op. cit.*, Vol. V. "En souscrivant cet emprunt (of 1877) . . . la Banque faisait vraiment oeuvre d'institution nationale."—Biliotti, *op. cit.*, p. 61.

naturally forfeited for the bank any immunity which, as a private institution, it might otherwise have expected from the direct effects of the political storms which shook the administration from 1875 to 1914. As a result of the Armenian massacres of 1894–7, a run on the bank was started by the Armenian faction at Constantinople in 1895, at a time of great financial instability, in order to procure its suspension and so embarrass the Imperial authorities. A moratorium had to be declared enabling the bank to defer conversion of its notes and payment of its deposits. Bombs were thrown at the Head Office of the bank in 1896. Its widespread branches in loosely connected or practically autonomous parts of the Turkish Empire also suffered occasionally, and in several instances had to be detached from the parent bank in some way that would satisfy local sentiment and yet preserve the financial connection. In 1866, at the end of the Couza regime, which had created the new State of Roumania out of the Turkish principalities of Moldavia and Wallachia, the offices at Galatz and Bucarest were merged in the new National Bank set up by the Roumanian Government in a burst of nationalist enthusiasm. The parent bank retained an interest in the new concern equivalent to the capital invested in the former branches.[1] After the second Balkan War, the bank had further to retire from those parts of Macedonia now ceded to Serbia by the Treaty of Bucarest. Its branches at Monastir and Uskub were now formed into the Banque Franco-Serbe "in order to meet diplomatic difficulties,"[2] the Ottoman Bank maintaining a large interest in the new institution.

In spite of its closeness to the Ottoman Government, and its experience and knowledge of the European money markets, it can hardly be said that the bank exercised much useful restraint on the criminal extravagance of successive Sultans, either from the point of view of protecting the Turkish Government from the consequences of its own excesses, or from the point of view of safeguarding European

[1] Annual Report, 1866. Part of this holding was afterwards sold to the public.—*Bankers' Magazine*, 1871, p. 639.

[2] *Bankers' Magazine*, 1914, I, p. 873. It is noteworthy that its branches in the territories taken over by Greece and Bulgaria remained as before.

investors from inevitable defaults. The natural expectation of investors that the powers granted to the bank in 1863 and 1875 would be used to curb prodigal Government spending, even if there existed no express provision to this effect,[1] was bitterly disappointed. Barely a year after the 1875 Convention, when the great Turkish default took place, it was difficult to avoid making the obvious inference.

> The Imperial Ottoman Bank has been the chief offender. . . . Knowing the corrupt character of the Turkish Government as its Constantinople officials must have done, it is strange to see how greed of gain and no doubt also some remains of the old enthusiasm about Turkey's great resources have blinded them to the true state of affairs. Many of the announcements issued under the sanction of the bank read as if they could hardly have been made in good faith.[2]

In 1888, on the entry of the Germans into the field of Ottoman finance,[3] it was perhaps permissible to hope that increased competition would purge away some of the worst features of the system, at least to the extent of guaranteeing a rather fairer deal to the Turkish Government as well as to the European investor. But in view of the understanding quickly reached between the Ottoman Bank and the Deutsche Bank, it may be doubted whether this competition was ever very effective in the sense suggested. Sir Adam Block wrote of these two banks in 1906,[4]

> Both parties make advances to the Government at high rates of interest, and when it is desired to force the Government to accept the terms of a loan operation by either party, the doors

---

[1] The absence of this was noted by experienced observers. E.g. Lewis Farley (*Decline of Turkey*, London, 1875) says that the Bank " will exercise no more control over the Porte's expenditure or its power of local borrowing in the future than it did in the past."

[2] A. J. Wilson in *Macmillan's Magazine*, Nov., 1875, quoted by Blaisdell, *op. cit.*, p. 69.

[3] By the " Fisheries Loan " of 30 million marks. The Ottoman Bank protested ineffectually against this transaction, insisting that it was a flagrant violation of its preferential rights to the finance of the Ottoman Government under its statutes.

[4] B.D.O.W., Vol. V, 147. Report of Sir Adam Block on Turkish Finances. Sir Adam Block was President of the British Chamber of Commerce in Constantinople, British delegate on the Public Debt Administration, and unofficial ambassador of British commercial interests in Turkey. With Sir Ernest Cassel, he became subsequently one of the leading spirits in the (British) National Bank of Turkey project.

of both German and French establishments are closed to further temporary accommodation. The Ottoman Government is therefore obliged, in its present penurious condition, to accept the usurious terms which are offered.

Up to the end of the century, the Ottoman Bank confined its operations mostly to dealings with the Turkish Government, and paid no special regard to commercial business or industrial participations. Its branches were founded more to serve the needs of the Ottoman Treasury than to make commercial profits. But after 1890, a wide extension of the branch network for commercial needs was undertaken, over thirty new branches being opened for business in the next twenty years, and at the same time, the bank began to interest itself more in industrial and commercial ventures. In 1884, in conjunction with Bleichroders of Berlin, and the Credit Anstalt of Vienna, it took over the exploitation of the Turkish tobacco monopoly for an annual rental. In 1896, it negotiated a concession on behalf of a French group for the important Heraclea coal mines. In 1899, in agreement with the Deutsche Bank, it secured a participation in the projected Bagdad railway. It founded public utility companies for the ports of Constantinople and Beirut, and became closely connected with Constantinople tramway, water and electricity companies through interlocking directorates.[1] Finally it had direct representation on the Ottoman Public Debt Administration, set up in 1881 to collect certain Turkish revenues assigned to the foreign bondholders. On account of its interests in the public and private finances of the Ottoman Empire, its position at Constantinople was thus one of positively immense prestige and importance. This was scarcely less true in the other economically subordinate countries of the Near East. Loans to Greece after the Græco-Turkish War of 1897, for instance, to Serbia for the debt consolidation of 1893, were floated partly through the Ottoman Bank, and served to increase the circle of its interests without altering their centre. In Turkey proper, the bank's activities penetrated deeply into the economic life of the country. Well might one observer in 1912 ask,

[1] Cf. Blaisdell, *op. cit.*, pp. 219–20.

" Is not the Ottoman Bank, where a former ambassador of France reigns, a more important instrument of influence than even the ambassador of the French Republic." [1]

The vital importance of the bank in Turkey prompts an inquiry into its relationships in Europe, where the control of its affairs really resided. There seems no doubt that after its reorganization in 1863, an important change took place in the ownership of the bank's shares. Coincident with the transfer to France and other Continental countries of the major part of the Turkish external debt then in British hands, there was a movement across the Channel of Ottoman Bank shares. The London and Paris Boards remained independently in existence, the British shareholding has always been substantial, and it was customary to make alternate French and English appointments to the office of Director-General in Constantinople. But control has been effectively exercised from Paris for the greater part of the bank's history. Sir Adam Block, writing in 1906 of the bank's participation in Ottoman loans for the previous twenty years,[2] admitted that

> it may be urged that the Ottoman Bank, which is the prime mover in the French financial operations, is a Franco-English establishment. But the loans have been floated on the French market and the initiative in all cases has come from Paris.

In 1903, Ambassador Cambon reported to Paris [3] that the Ottoman Bank was " far from holding the same position in London as in France." In fact, the London Committee possessed little positive function at all until 1905, the year after the Franco-British accord on the Morocco and Egypt questions, when the Egyptian branches of the bank were handed over to the London administration, the remainder being managed as before by Paris. In 1919, the French majority shareholding was officially admitted.[4]

[1] St. Maurice, *Instruments Modernes de la Politique Etrangère*, quoted by Blaisdell, *op. cit.*, p. 231.

[2] B.D.O.W., Vol. V, 147.

[3] " Les administrateurs anglais de cette banque, gens fort honorables, jouent ici un rôle tres éffacé et ne font pas grande figure dans la Cité."—Doc. Diplom. Fçses., Vol. III, 2nd Series, 1901–11, No. 193.

[4] " On peut estimer que la grande majorité des actions est détenue par des Français."—*Les Intérêts Financiers de la France dans l'Empire Ottomane*.—Published by the Ottoman Bank, Paris, 1919, p. 22.

Now it is a marked characteristic of the banks controlling French foreign investment that their activities were constantly subjected to pressure from the French Government in the interest of the particular brand of foreign policy then in favour.[1] Control from Paris has thus, in practice, meant that the real responsibility for a great part of the policy of the Ottoman Bank as to its loan operations, has rested with the French Government; and this is especially likely to have been the case as the common rule was for several of the Ottoman Bank directors to be at the same time regents of the Bank of France. The bank's activities thus acquired a semi-official significance, especially after 1888, when it lost its almost complete monopoly of Turkish financing on the appearance of the German group upon the scene[2]; and it is noteworthy that this often led to the complaint that the French Government had two representatives on the Ottoman Public Debt Administration (against one for every other Power), one directly appointed and the other from the Ottoman Bank.[3]

The story of Balkan railway finance clearly reveals the bank on many occasions as the instrument of French foreign policy.[4] It began early to introduce French capital into this region. In 1885, with the Comptoir National of Paris, it obtained the concession to construct two small lines linking Salonika and Constantinople to Vienna. In 1891, it took firm 60 million francs of the capital of the Danas–Hama company for the construction of lines in Syria. In 1890 it led a French group which secured from the Turkish Government a concession to build the Salonika–Constanti-

[1] "In some instances, the Government itself virtually arranged the borrowing, then selected some banking group to execute it; or, in the case of business which the banks were at the moment reluctant to undertake, it called together the bank executives and secured their co-operation on the ground of national welfare."—Feis, *Europe—the World's Banker*, New Haven, 1930, p. 134.

[2] "Lorqu'il fallut defendre l'influence et les enterprises françaises contre l'envatrissement de celles de l'Allemagne, les interêts de la Banque se trouvèrent encore plus étroitement soudés a ceux de la France; chacun de ses succés fut considéré comme un succés pour la politique française." —*Les Intérêts Financiers*, Ottoman Bank publication, p. 22.

[3] Cf. Report of German Ambassador at Constantinople, 20 Oct., 1913. *Die Grosse Politik*, Vol. 37, 15260.

[4] This account is much indebted to Feis, *op. cit.*, Chap. XIII.

nople Junction Railway, thus introducing French railway capital into a region dominated till then by the Oriental Railways Company, the celebrated subsidiary of the Deutsche Bank group, effectively operated in the economic interests of Germany. In 1908 its intervention to preserve the French position in the Balkans was particularly timely. Its support of the Serbian railway project uniting Serbia and Montenegro across Turkish territory, effectively countered the ambitious Austrian plan for a German line from the Oriental Railways system to Constantinople, which would have avoided Serbia altogether. The internationalization of this line was being discussed between the Ottoman Bank and the Banca d'Italia up to the outbreak of the Balkan Wars. Throughout the whole proceedings, the Ottoman Bank stands out clearly as the mouthpiece of the forward policy of the French Government in the Balkans, and as the instrument of its execution in the economic sphere.

The account of the long negotiations over the Bagdad Railway greatly strengthens this impression. Since 1891, with the help of the French Foreign Office and the French Ambassador at Constantinople,[1] the Ottoman Bank had sponsored the introduction of French capital into railway projects in Asia Minor. But with the increasing pressure of the German penetration policy in the Near East—facilitated, it was said, by the previous mistakes and unpopularity of French and English financiers [2]—and the advent of definite Bagdad railway projects, international rivalries began to crystallize. Two lines were originally planned—one, the Anatolian Railway Company, founded by

[1] Admitted in a letter of Finance Minister Rouvier to Delcasse, 23 July, 1903, Doc. Diplom. Fçses., Vol. III, 2nd Series, 1901–11, No. 367.

[2] Ambassador Marschall wrote from Constantinople on 5 March, 1898, to von Hohenlohe: "We owe our success here not to ourselves alone, but to the activity of our competitors. Of what French and English speculators did in shameless exploitation of Turkey, the building of the Oriental Railways, the history of the Ottoman Bank, the management of the Tobacco Régie, and recently that of the French quay company, offer a warning example. The names of Baron Hirsch and Sir Edgar Vincent are typical of the class of financiers, who have systematically robbed Turkey here, filled their pockets, and then turned their backs on the country. It is just their activity which has paved the way for honourable German enterprise."—*Die Grosse Politik*, Vol. 12, p. 3339.

the Deutsche Bank group to operate a line from Constantinople to Konia, and the other, the Smyrna–Cassaba line, worked by the French. In 1899, the German group, foreseeing that it could not complete the extension from Konia to Basra without outside assistance, sought to widen its resources, and an international group was formed, including the Deutsche Bank as representing the predominant German interests, and the Ottoman Bank the French. In 1903 the Bagdad Railway Company was organized by the Deutsche Bank under Turkish law.

Mutual jealousy now caused the existing members to press for British participation in the group, it being quite clearly understood by all concerned that the Ottoman Bank, in spite of its Anglo-French ownership, served French interests only. Lord Lansdowne at first tried to get Sir Ernest Cassel and Sir Clinton Dawkins (a partner in Morgan's London firm) interested, but they were hesitant [1] and Lord Revelstoke of Baring Brothers finally agreed to head the British group. But a sudden ebullition of anti-German feeling in England, and of French suspicion of German predominance on the Bagdad Railway Board, completely upset the plans for the new grouping. Ambassador Cambon reported to Paris [2] that the Ottoman Bank's representatives, alone with the Germans, had given way to them in negotiation, and had admitted a series of conditions more favourable to German influence. Ambassador Bompard at St. Petersburg reported [3] that the engagements of the Ottoman Bank with the Deutsche Bank at Constantinople " ne lui laissent pas assez d'indépendance pour qu'on s'en remettre à elle de la défense des intérêts français . . . La Deutsche Bank est aussi audacieuse à Constantinople que la Banque Ottomane

[1] Perhaps because of Cassel's national origin, and Morgan's unpopularity after the International Mercantile Marine combine.—B.D.O.W., Vol. II, 208. Cf. von Gwinner's (of the Deutsche Bank) suggestion in Vol. II, p. 224.

[2] Doc. Diplom. Fçses., Vol. III, 2nd Series, 1901–11, No. 193.

[3] *Ibid.*, No. 199. The German relations of the Ottoman Bank, growing out of commercial rather than political motives, were at times a source of trouble to the French Government in bringing influence to bear upon the bank. As late as 1913, Russia was reported to have tried to weaken the German connections by fostering an *entente* between the Ottoman Bank and the Banque Russo-Asiatique. Cf. Feis, *op. cit.*, p. 320.

s'y montre timorée." As a result, the proposed British participation was withdrawn, and the French Government stated it would refuse listing privileges to the Bagdad Railway Bonds on the Bourse—a powerful, frequently used, and generally effective way of forcing recalcitrant bankers into line with the policy of the Government. But the participation of the Ottoman Bank in a new issue of the Bonds had already been guaranteed under contract. It consequently became entirely unofficial and contrary to expressed official wishes. In this and other matters, it must be admitted that the bank often became restive under the rigid and sometimes irksome control enforced by the necessities of French foreign policy. In this particular instance, Sir Adam Block was informed [1] that

> if M. Delcasse fell, the French would again participate, as M. Rouvier and the French Consortium were determined to have a share in the enterprise. M. Auboyneau, Director-General of the Imperial Ottoman Bank in Paris, admitted to me in January last that the French financial world desired to join in the railway.

In order to procure the French Government's approval of the Bagdad Railway Issue, the bank even went to the length of intervening in the Persian negotiations of 1907 between Russia, Great Britain and Germany.[2]

Further efforts were made to draw in non-German capital in 1905, when the German group was faced with the huge costs of building sections of the line across the Taurus mountains. Auboyneau, director of the Ottoman Bank, promised that if the Algericas Conference came to a satisfactory conclusion, the bank would be ready to confer again about the railway,[3] and Speyers were mentioned as the possible head of a new British group.[4] But this project proved completely abortive. France and Russia could not be brought to accept the terms offered by the British Foreign Office, involving British control of the Basra–Bagdad section, and Germany was in any case unwilling to grant France and England a position of equality in the railway administration.

[1] B.D.O.W., Vol. V, 147.
[2] Cf. Feis, *op. cit.*, p. 370.
[3] B.D.O.W., Vol. VI, 223.
[4] *Ibid.*, Vol. VI, 213.

The situation had changed sufficiently after the Young Turk Revolution for British participation to be sought again by the Germans in 1909. The negotiations then started between von Gwinner, of the Deutsche Bank, and Sir Ernest Cassel, on the basis of German control of the Northern section, and British control of the Bagdad–Gulf section, found the British position rather stronger than before. Cassel was now at the head of the National Bank of Turkey, British-owned and British-controlled, an institution which had originated out of the dissatisfaction felt in influential circles in London at the way in which the Ottoman Bank, ostensibly an Anglo-French concern, had served French economic and political interests to the exclusion of British. Sir Edward Grey's words in this connection, after the Young Turk Revolution, are memorable.[1]

> I was distressed to find [he wrote] when I came into office, how completely we had been ousted from commercial enterprise in Turkey . . . [and] disappointed to find what a very poor set of financiers have got commercial enterprise in Turkey into their hands. It was, I suppose, inevitable under the old regime, for its methods were such that it did not attract the best class of financier. If Turkey puts its house in order, I hope that good financiers here will come forward, and by degrees strengthen the British influence in such things as the Ottoman Bank, and enable us to co-operate with the French at least on equal terms.

The good financier turned out to be Sir Ernest Cassel, who headed an Anglo-Turkish group responsible for the formation of the National Bank of Turkey Ltd., the definitive statutes being sanctioned in Constantinople in April, 1909. Sir Henry Babington Smith, who had already had considerable experience of the financial problems of the Near East as British representative on the Ottoman Debt Council in 1900, and as President in 1901, resigned his post as Secretary to the British Post Office at the special request of the Home Government,[2] and accepted the Presidency of the new concern. But although negotiations were much facilitated with this new and entirely British institution in the field, a definite agreement could not be reached for a long time.

[1] *Ibid.*, Vol. V, 267.

[2] *The Times*, 9 Aug., 1909.

Russian suspicions had been stirred up by the prospect of an Anglo-German understanding without reference to the other interested Powers, and Turkish prejudices against any further British economic penetration were at the moment very strong.[1]

However, in 1911, the Bagdad Company undertook to build a further long section of the line from El Helif to Bagdad, and its increasing financial responsibilities forced it to be more amenable with other foreign interests at the same time that the political situation was making the outside Powers more anxious for participation. Negotiations were as usual opened by the international bankers and joined by the interested Governments, and the agreement finally reached divided Asiatic Turkey into spheres of European economic influence. France retired from the Bagdad Railway, and centred her interests in railway development in North Anatolia and Syria; the German financial group took over the French holdings of Bagdad Bonds from the Ottoman Bank and other capitalists; and British interests were served by the recognition of navigation rights on certain rivers in Asiatic Turkey, and by the concession to the Turkish Petroleum Company, of Anglo-German origin, of rights to exploit the oil resources of Mosul and Bagdad.

In addition to industrial and railway issues, the Ottoman Bank again represented French interests in its activities on behalf of large Turkish Government loans, most of which were floated by this bank in Paris before the War. When its virtually complete monopoly of this business was broken in 1888 by the entry of the Deutsche Bank group, undertaking loans which the Ottoman Bank refused, it came to an understanding in 1894 that "25 per cent of all operations should go to the Germans if the French Consortium carried out the operation, and vice versa."[2] But the French holdings remained considerably larger, in spite of persistent German efforts, and no official listing privilege was granted

[1] Sir H. Babington Smith's Report, 8 Feb., 1910, B.D.O.W., Vol. VI, 322.

[2] B.D.O.W., Vol. V, 147.

by the French Government for any of these loans except in return for some solid economic or political consideration serving to strengthen the French position in Turkey. Sir Adam Block reported that from 1886 to 1906 the French group had been responsible for public loans aggregating £17,482,560, and the Germans for £9,205,844.[1]

This dependence upon foreign financial support, irksome to any Turkish Government, was naturally especially mistrusted by the Young Turk regime of 1908, whose first intention in financial matters was to escape in some way from reliance upon the Ottoman Bank. The bank was felt to be tainted by loyal association with the Government of the deposed Sultan, and its occasional co-operation with the financial interests of Germany, whose rulers had consistently supported reactionary Turkish rulers before the Revolution,[2] had rendered it suspect. The last, though certainly not the least significant comment to be made about the pre-War history of this remarkable institution, has therefore to do with the efforts of Turkish Nationalists to secure independence from a foreign bank which had built up a truly commanding position in their country, during the course of half a century of unprecedented economic development.

At first, attempts were made in September, 1908, to borrow in liberal England, at the same time as unenthusiastic negotiations were started with the Ottoman Bank. Sir Edward Grey immediately notified the French Government of the Turkish approach, and was informed that "as the Imperial Ottoman Bank is an Anglo-French institution, the obvious course to pursue was that English financiers should participate in the Turkish loan to be issued by the Imperial

[1] The Ottoman Bank itself fully realized the paramount importance and the political consequences of the large French holdings of the Ottoman External Debt. Cf. *Les Intérêts Financiers de la France* (published by the Bank), Paris, 1919, pp. 9–16.

[2] Biliotti (*op. cit.*), p. 335, writes critically of the Turkish attitude to the bank: "On serait peu fondé, aujourd'hui que la Turquie a accompli sa revolution de venir lui faire un grief d'être venue en aide aux gouvernements de l'ancien regime. Ce serait oublier qu'un gouvernement quel qu'il soit n'en represente pas moins l'Etat et que le premier droit et le premier devoir d'un Etat est de vivre." He states that the Committees of the bank were trying to turn it into an institution making profits out of ordinary banking operations rather than extraordinary transactions with the Government.

Ottoman Bank."[1] The National Bank of Turkey was not yet in existence; and the Rothschilds and Lord Revelstoke informed the Foreign Office that any Turkish loan then issued in London would be foredoomed to failure until confidence in the stability of the new regime had been more firmly established. Moreover, liberal opinion in both England and France was violently alienated by the sickening excesses of the Young Turks in Armenia and Macedonia. Despite the constant bickering of the new Turkish Finance Minister with the bank directors,[2] negotiations had consequently to be resumed with the Ottoman Bank. The Turks were coolly received, the bank, true to its Parisian connections, insisting on diplomatic agreement with the French Government before making a loan. But the agreement would have involved, amongst other severe conditions, drastic financial reforms under French tutelage, for which the Young Turks were certainly not prepared. The unpopular Ottoman Bank, for instance, would have been made Public Treasurer, with the duty of certifying all expenditure as having been authorized by a Budget prepared with the assistance of French advisers. The German Ambassador at Constantinople made a very frank report to Berlin on the whole project. "The intention," he wrote,[3] "is to thrust the whole Turkish financial administration into the strait jacket of the Ottoman Bank and of France." All public income would have to go through the bank, and all expenditure would have to bear its visa.

There can be no doubt that this project is not a case of financial guarantees but is a great political coup. This is clear from the appointment of a politician like Révoil [former French Ambassador to Madrid] as Director-General of the Bank, as this place has up to now always been filled by bank officials. The blindness of the French is incomprehensible. Those who know the Young Turks only slightly must realize that even the greatest need of money will never move them to place the control of the whole Turkish State with a Private Bank, which as everybody knows —I think of the times of Sir Edgar Vincent and the activities of Herr Pangiri Bey—has quite a dark past.

[1] B.D.O.W., Vol. V, 202. [2] Cf. *Die Grosse Politik*, Vol. 27, 10043.
[3] *Die Grosse Politik*, Vol. 27, 10047.

It was perhaps not surprising that the Turks turned elsewhere for help, their next choice being the Crédit Mobilier in Paris. But when this bank approached the French Government for the listing privilege, substantially the same conditions were asked, as the Government wished to support the stand taken by the Ottoman Bank.[1]

In their refusal to submit to these conditions, the Turks this time seem to have been supported from England. Sir Ernest Cassel had by this time seen his way clear to promise Djavid Bey, the Turkish Foreign Minister, a loan of £T. 6 millions, "in case he should not succeed with the French. Behind this," wrote the German Ambassador to Berlin,[2] "stands the English delegate of the Public Debt Administration, Sir Adam Block, who has systematically egged on the Finance Minister against the Ottoman Bank." But the French were not so easily played off. The French Government let it be known that the Cassel project conflicted disagreeably with the *entente cordiale*,[3] and at once the British Foreign Office, through Sir Charles Hardinge and Mr. Mallet, made such energetic representations [4] to Cassel that the loan negotiations were abruptly dropped at the end of 1910. But German help could still be asked; and German financiers were not slow to seize the opportunity, at this moment of financial need in Turkey, to strengthen their position. As a result, France gave up pressing for the drastic reforms which might have purged Turkish public finance considerably at the cost of some loss of national prestige, and the next Turkish loan issued in Paris in April, 1914, again left the Turks a fatal freedom for still further wasteful expenditure.

The pre-War situation of the foreign banks in Turkey was instructive. The Ottoman Bank, by far the oldest, most important, and most strongly entrenched, represented French commercial and political interests, though it was owned jointly by English and French capitalists. Its long record of loyal service to, and close association with a suc-

[1] *Ibid.*, 10043.
[2] *Die Grosse Politik*, Vol. 27, 10046.
[3] *Ibid.*, 10048.
[4] De Siebert, *Entente Diplomacy and the World*, New York, 1921, p. 302.

cession of absolutist Turkish rulers before 1908, had consolidated its position as the practical State Bank of Turkey, without however commending it to the leaders of the Young Turk Revolution. Its monopolistic position had been seriously assailed first in 1888, when the Deutsche Bank appeared on the scene as the harbinger of German economic penetration in the Near East; and secondly in 1909, when the National Bank of Turkey was founded to look after British interests. The essentially British bank, no less than the others, looked for official support from its Government as well as for official suggestions. Owing to the political importance of Turkey's ultimate destiny, the activities of these banks were turned into a peculiar mixture of finance and diplomacy. The European Governments, politically and economically very strongly entrenched in Turkey through the interests of their nationals in commercial enterprises, and through their official representation, in fact if not in form, on the Administration of the Ottoman Public Debt, set up banks which unstimulated private enterprise would not supply, and used existing institutions to produce capital movements which might not otherwise have occurred. The fact that the power and influence of the British bank, the late comer in the situation, was decidedly less than in the case of the others, is in harmony with the generally hesitant attitude of the British Government on the question of political interference in foreign investment.

(c) Tunis

Away from Constantinople and Alexandria, the characteristic difficulties of banking business in the Turkish dominions appear no less sharply. Tunis, ruled in 1856 by the Bey as nominal vassal of the Sultan of Turkey, was a large, undeveloped and primitive country, whose geographical position and political weakness made it a focus of the contending national ambitions of the European powers. The resident British Consul, Richard Wood, remarkable alike for an implacable antagonism to the French interests and an energetic prosecution of the British, had frequent and

lively brushes with the French diplomatic representatives, which in at least one notable instance, in 1877, were the subject of official remonstrance.[1] One of Wood's most cherished hopes was to see an English bank operating in Tunis.

In face of British protests against the unregulated issue of paper money, a French bank had, in fact, been started in Tunis in 1847, "possibly under the hope of still further embroiling the Bey with the Sultan,"[2] but it had lasted only a short time. Wood now thought he saw a great opportunity for an English bank, which would do away with usurious moneylenders and rapacious revenue farmers, and would afford security to savings then hoarded. A plan was secretly (for fear of French hostility) forwarded to the Bey, showing an "Anglo-Tunisian Bank" with a capital of £75,000, of which two-thirds would be subscribed by the Tunisian Government, with power to receive the Government revenue, keep the public accounts, and in addition, make short-term commercial loans on oil, grain, and the other staple crops of Tunis; and shortly afterwards, the Bey's emissary left Tunis, "ostensibly to conduct his family to Europe, but with the secret mission to proceed to England to make arrangements for the establishment of the bank."[3] Urgent letters followed from Wood to the Foreign Office, suggesting the direct countenance of the British Government for the project.

The Bey had meantime declined a proposal for the establishment of a branch in Tunis of a Marseilles bank. But his emissary in London, although provided with a British Government introduction, had been but coldly received at Glyns, where a deposit of £12,000 was demanded before negotiations were commenced. Glyns at that time had the shares of the Bank of Egypt on their hands at a discount,

[1] "Cet agent," wrote the French Consul-General Roustand, "dans lequel semble s'être incarnée la haine de Lord Palmerston contre la France, compte aujourd'hui 53 années de carrière, qui, comme il dit avec affectation, ont été presque uniquement employées à combattre l'influence française dans les divers pays d'Orient."—Doc. Diplom. Fçses., No. 2, 1st Series, 1871–1900, No. 193.

[2] Foreign Office Memorandum in F.O. 102/67.

[3] Letter of Wood to F.O., 26 Nov., 1856, F.O. 102/67.

and neither they nor anyone else seemed anxious to embark on fresh ventures in the then touchy state of the money market before the great catastrophe of 1857. Fortunately, assistance was at hand from another quarter. When in 1856 the mail-carrying S.S. *Candia* had been wrecked off the Tunisian coast, the Bey had been very helpful to the survivors and had re-forwarded the mails; and as a token of gratitude the P. & O. Steam Navigation Company sent its energetic Chairman, Arthur Anderson, to Tunis shortly afterwards, in order to present the Bey with an ornamental barge. It was during this visit that the question of a British bank for Tunis was discussed. On a direct invitation by the Bey, and under some pressure from Consul Wood, Anderson at length promised to undertake the formation of an "Anglo-Tunisian Bank" by Royal Charter. The conditions he asked were a monopoly of the legal tender note issuing business for forty years, the right to demand armed protection from the Government wherever the bank might establish its Tunisian branches, and a deposit of £25,000. A concession in approximately these terms, giving the Government power to appoint an Inspector "to take cognizance of the bank's affairs," was granted on 21 March, 1858.

The news had now got abroad, and protests began to arrive from the French. Wood reported local remonstrances from Tunis, and Lord Cowley in Paris wrote[1] that the Imperial Government "would oppose the realization of the plan by all legal means in their power," and "counted on the friendly sentiments of H.M. Government if not for assistance, at all events for forbearance." Some of the French objections, to the name of the concern, to its association with the Tunisian Government (to be confirmed "in a most ostensible manner" by the projected Royal Charter), and to the connection with it of the British Consul, who was to be nominated to a seat on the Board, were removed by the publication of an innocuous prospectus of the "Bank of Tunis," incorporated under the Companies Acts. And when the Foreign Office instructed Wood to take no direct

[1] Letter to F.O., 27 Nov., 1858, F.O. 102/67.

interest in the bank whatever,[1] the French withdrew their protests and their threats of a rupture of diplomatic relations with Tunis ceased.

Unfortunately, the bank fell foul of another, and fatal obstacle. In 1860, Anderson's associates, after several months' work in Tunis organizing the bank, suddenly threw up their task and returned complaining of injustice and bad faith at the hands of the Tunisian Government. The bank statutes which they had drawn up showed no correspondence with the wishes of the Government, but they were equally irreconcilable with the terms of the original concession. Although on some disputed points this was ambiguous, it certainly called for incorporation by a Royal Charter, which the promoters now refused on the ground of expense. It also called for Government superintendence of the bank in Tunis, which the promoters also refused, knowing the effect that this condition would have on the market for their shares. But their complaint, made with great show of indignation to the Foreign Office,[2] said nothing of these matters, alleging merely that " the true cause of the non-fulfilment by the Tunisian Government of its part of the obligation was the opposition of the representatives of the French Government " and the helpless position of the Tunisians in face of French domination. Lord Russell wrote plainly that he did not believe this.[3] Nevertheless, Anderson repeated this rather one-sided view of the matter to his shareholders, in explaining why the concession was abandoned.[4] Tunis was almost a French colony ; " the poor Bey dare not do anything displeasing to his strong and not very scrupulous neighbour in Algeria, well aware that a tolerable pretext is only wanting to annex his territory."

[1] The Foreign Office found the energy and initiative of its Consul a little embarrassing. Cf. the unwilling partnership of the U.S. State Department, and Willard Straight, American Consul at Mukden, in the agreement to found a Bank of Manchuria.—Clyde, *International Rivalries in Manchuria*, pp. 186–7. Cf. also the German Bank of Persia project, pp. 123–4.

[2] Letter from Anderson to F.O., 17 Oct., 1861, quoted in *Bankers' Magazine*, 1861, p. 873.

[3] Letter of F.O. to Anderson, 14 April, 1862, F.O. 102/67.

[4] Speech at Shareholders' Meeting, reported in *Bankers' Magazine*, 1861, p. 873.

There ought to be intervention by the British Government on the same lines as that undertaken for the Mexican bondholders !

Wood, acknowledging that Anderson was in the wrong, was in despair at the turn of events. " I had triumphed over all sorts of embarrassments," he wrote to Anderson, "—local prejudices, foreign opposition, the uncertainties of a weak Government under the pressure of a powerful neighbour . . . all to no purpose." [1] The bank was never formed, and the indefatigable Consul had to wait on a further opportunity. This came in 1873, when at his suggestion, the Imperial Ottoman Bank, with strong support from London banking circles, founded the London Bank of Tunis Ltd., with a capital of £100,000, and a Board including such well-known names as Richard Baring, Richard Glyn, Currie, Larking (London Financial Agent of the Khedive of Egypt), and important representatives of the Ottoman Bank. The procedure and the concession followed familiar lines. The draft concession framed by the syndicate stated the bank to be under the special protection of the Bey, and to have the exclusive privilege of issuing convertible legal tender notes. It was to be the recognized financial agent of the Tunisian Government, with a preferential right to carry out all loan operations, and to execute public works of every description. But the terms actually received by the syndicate,[2] were not identical with this. The bank was to have " the assistance of and the preference on the part of the Government, as much as lays in its power." As to its note issue, " the Government does not guarantee the Paper (Bank Notes), but should the Bank issue them, it will be on the credit of the Bank." The first sentence contained an implicit reference to the Finance Commission representing France, England, and Italy, which had been set up to supervise Tunisian public finance in the interests of the bondholders of the now bankrupt Bey.[3] The

[1] Letter of 19 Aug., 1860, F.O. 102/67.

[2] In a telegram from the Prime Minister of Tunis of 19 May, 1873, F.O. 102/122.

[3] Constituted 5 July, 1869, as a result of the agitation of French creditors. Cf. *L'Etat Tunisien*, Fitoussi, Paris, 1901.

second emphasized the essentially *private* character of the bank.

By this time the quarrels of the English and French Agents in Tunis were causing concern in diplomatic circles and instructions had been sent to both to "proceed in perfect accord." [1] But in the eruption of protests which greeted this new project, the French Minister was now joined by all the Foreign Consuls except the American.

> The Italian agent [reported Consul-General Wood] [2] dreads the establishment of an English bank lest it should compete with an Italian bank already existing without the Bey's permission. The French representative sees with disfavour every enterprise likely to give permanency to our influence, and the Austrian Consul opposes it because an Austrian capitalist had offered to form a bank on conditions unacceptable to the Tunisian Government.

At the same time, it was easy to see that the obnoxious hint in the concession of special privileges of "assistance" and "preference" was the real reason for the protests. Wood's explanation that these privileges were necessary to enable the bank to recover debts successfully—that without them "a bank in the Barbary States would speedily see its capital pass into the hands of the natives"—could not be expected to meet objections made by other foreigners on the spot. Moreover, the Finance Commission itself protested most strongly against the bank, on the ground that its note-issuing activities would compromise the public credit and injure the trade of the country.[3]

Disregarding these objections, the promoters opened their bank for business in Tunis in September, 1873. At once the French Chargé d'Affaires peremptorily demanded that the Bey should put a stop to it.[4] The promoters themselves,

[1] Doc. Diplom. Fçses., Vol. I, 1st Series, 1871, No. 65, 106.

[2] Letter to F.O., 31 May, 1873, F.O. 102/122.

[3] "Les privilèges accordés à cette banque par le Gouvernment ont une portée dangéreuse qui n'a point échappé à la Commission Financière; ils tendraient non seulement à violer ses attributions, mais encore à porter la plus grave atteinte aux intérêts de ses créanciers ainsi qu'au commerce du pays."—Procés-verbale of Finance Commission, 21 May, 1873, F.O. 102/122.

[4] The Anglo-French origin of the Imperial Ottoman Bank, sponsor of the whole scheme, appeared to count not at all in the eyes of the French.

under the pressure of his aggressive tactics, felt themselves compelled to appeal to their Foreign Office against the "intrigues" and "hostile attacks" of the French Minister. But the Bey was made to prohibit the establishment of any new banks at all, forceful but unavailing protests were made by Consul-General Wood, and the business of the London Bank was brought practically to a standstill.

Meantime, *notes verbaux* were passing to and fro between Lord Lytton in Paris and the French Government. Lord Lytton could not understand why the French interfered at all. "The intervention of any foreign agent to induce the Bey to forfeit his word to an English company of acknowledged respectability, would be regarded in England as a very offensive proceeding," he told the Duc de Broglie.[1] But the French Government pointed out that the terms of the concession proved the bank to be not an ordinary private one, and that in any case, the protests of the Finance Commission ought to be upheld by the nominating Governments. The matter thus promised to become troublesome, and was referred to the British Prime Minister. "I fear the case is full of doubtful points and to require much caution," wrote Gladstone.[2] The "assistance and preference" clause in the Concession was

> quite indefensible. Preference to a particular bank in vague terms, lays ground for all manner of disputes hereafter, and seems at once to place any competing institution at a disadvantage. No one bank, or foreign resident, or body of residents, ought to receive aid in the recovery of debts, which is not granted to others.

The dispute might thus have dragged on indefinitely, with every prospect of arriving at an unsatisfactory and laborious compromise, especially as the British Government was suspicious of French annexationist designs in Tunis.[3] Fortunately for the London Bank, however, the matter was

[1] Lord Lytton reporting his conversation with the Duc de Broglie to F.O., 17 Oct., 1873, F.O. 102/122.

[2] Letter to Lord Granville, 7 Nov., 1873, F.O. 102/122.

[3] Lord Lyons was reassured on this point in Paris, Dec., 1873.—Doc. Diplom. Fçses., Vol. I, 1st Series, No. 252. The French occupation took place in 1881.

settled out of court. In March, 1874, Consul-General Wood reported that the bank had performed its functions unmolested for some time, and that the Directors had abandoned their rights of note issue. This met the objections of the Finance Commission, and no doubt the French reckoned on their great influence with the Bey to nullify any harmful operation of the obnoxious clause in the concession. Sir Richard Wood (as he afterwards became) now had the satisfaction of seeing a British bank in Tunis carrying on its business without hindrance—a not unworthy testimony to the enterprise and resolution of the promoters, and to his own perseverance in the interests of his country.

(*d*) Persia

From the point of view of this study, the condition of Persia at the time of the first British banking penetration was in most respects similar to that of Turkey. A corrupt and spendthrift Court, whose fantastic extravagance pressed heavily upon the taxpayers, as upon a shaky and rotten administrative system, lived within measurable distance of revolt against internal misgovernment ; and by its constant recourse to foreign loans and the heavier taxation necessary to support them, raised a bitter antagonism to foreign exploitation amongst its people, in addition to hastening its own downfall. To the confusion caused by the complete absence of a proper budget and organized public accounts was coupled the abuses of a system of revenues farmed out to corrupt and tyrannical officials. The whole country, in spite of nearness to Europe, was deficient in almost all of the material elements of Western civilization, particularly road and railway transport facilities ; and commerce was undeveloped and risky in face of public insecurity and the arbitrary extortion of the tax-gatherer. The significant political factor was that the ultimate fate of Persia was clearly of immense importance to two Great Powers—Russia because of her constant preoccupation with the desire for a " warm-water " port, and Great Britain because of her anxiety about any threats to the overland route to India by a hostile Power.

In 1888 nevertheless, the two Powers had exchanged assurances that they would respect and promote the independence and integrity of Persia ; and it was in the same year that the New Oriental Bank, built on the ruins of the famous old Oriental Banking Corporation, appeared on the scene in Persia as a private bank, and opened seven branches in important cities. It was followed shortly afterwards, and its whole establishment was bought out, by the Imperial Bank of Persia. This new British bank had originated in somewhat unusual circumstances. In 1872, the famous Baron Reuter had secured from the Shah a concession conveying an almost complete monopoly of the entire economic life of Persia. Due to the furious opposition which this aroused in Europe, the concession had to be officially set aside, and the caution money of £40,000 returned,[1] but as an *amende honorable*, another concession was granted in January, 1889, permitting the formation of an Imperial Bank of Persia. Article 1 of this concession [2] must have reassured the outraged Baron very considerably. It explained that

> in order to develop the commerce and increase the riches of Persia, the Imperial Bank, outside any operations which appertain to a financial institution, may undertake on its own account, or on account of third parties, all matters financial, industrial or commercial, which it may think advantageous to this end.

Six per cent of the net profits (not less than £4,000 a year) were to be paid to the Persian Government, and the bank was given a monopoly of note issue, the notes to have 50 per cent cover in specie.

The bank was actually incorporated by British Royal Charter in August, and when its prospectus appeared in October, the capital of £1 million was over-subscribed fifteen times. This impressive but unusual method of incorporation, even at that time out of date,[3] was no doubt intended

[1] Sir Percy Sykes, *History of Persia*, Vol. II, p. 371.
[2] Quoted in Curzon's *Persia*, London, 1892, Vol. I, p. 474.
[3] In 1877, Sir E. W. Hamilton's *Confidential Memorandum on the Chartered Banks* (Colonial Office Library) stated that " the Charters of Incorporation impose on the Executive Government . . . duties and responsibilities which it cannot suitably or conscientiously undertake." A bill to reform the whole system was drafted in 1880. Cf. *Imperial Banks*, pp. 133–6.

to emphasize the fact that the project had official encouragement and approval, and was intended to be the spearhead of British commercial penetration in Persia for political ends. The British representative at Tehran was instructed to support it from the first.[1] Although a subsequent suggestion of Sir A. Hardinge at Tehran, that the Government should definitely acquire control over the bank, was dismissed as "impracticable,"[2] the Foreign Office admitted that "we have given the Imperial Bank a full measure of support, and have assisted them to establish their agencies in provincial towns."[3] Clause 16 of the Charter states that the bank's Deed of Settlement "shall provide for the bank remaining British in character, for its being regulated by a body of directors in the United Kingdom, and for the majority of the directors being British subjects."[4] The subscribers to the Charter, included, besides Baron Reuter, Baron J. H. W. Schroeder and Reuben D. Sassoon, and Geoffrey Glyn figured amongst the first directors.

The Imperial Bank began by buying out the New Oriental Bank for £20,000 and by taking over a new concession to exploit the mining resources of the country, which it ceded to a subsidiary, the Persian Bank Mining Rights Corporation. But the concession hunters had by this time, in several instances, clearly overstepped the mark. The Mining Rights Corporation had to be liquidated in 1894, and in the next year the bank was obliged on this account to write down its capital from £1 million to £650,000. The burdensome tobacco monopoly was exploited so ruthlessly that it led to a smokers' strike, which forced a cancellation of the concession, and the payment of £500,000 as compensation to the concessionaires.[5] With the loan of this money by the Imperial Bank to the Persian Government on the security of certain customs revenues, there began the Persian

[1] H. D. Wolff, *Rambling Recollections*, London, 1908, Vol. II, p. 350.
[2] B.D.O.W., Vol. IV, 321 (*c*).
[3] *Ibid.*, 321.
[4] Quoted in Rabino, "Banking in Persia," *Journal of the Institute of Bankers*, Jan., 1892.
[5] Sir P. Sykes, *op. cit.*, Vol. II, p. 373.

National Debt, based on the infiltration of foreign capital with the shadowy possibility of foreign political interference in the background. The bank also did some commercial business. But as might have been expected, its officials found the work in Persia a considerable change from the Olympian calm and well-ordered business practice of the European commercial centres. It appears to have been well received at first,[1] though there were some attempts to stir up religious animosity against it.[2] Business morality was everywhere at a low ebb—persons liable on bills, for instance, always required at least a fortnight to pay them if they paid at all—and the legal system in Persia, as in most Oriental countries, appeared somewhat peculiar from the European standpoint, as for example, when the Government in 1897 tried to pass into law a proposal that once a bill was accepted the drawer should no longer be liable. From time to time, the bank's affairs became the focus of powerful political forces, and this tended to introduce an unusual degree of interest and importance into its own activities and into the lives of its officials.

It was not long left alone in possession of the field. In 1891, the Banque des Prêts et d'Escompte de Perse was founded as a branch of the Russian State Bank in order to facilitate Russian economic penetration in Northern Persia, the bulk of the British interests being in the South-East, round the Gulf. It was said of this bank,[3] that it " has the full support of the Russian Exchequer, its manager takes his orders from the Ministry of Finance at St. Petersburg, and the nature of its business is dictated by political rather than by financial considerations." Its early activities had the very important effect of replacing British loans to the Persian Government by Russian, making that country the sole external creditor. This certainly strengthened the financial position of the Imperial Bank. In the early years, the weak and constantly criticized point in its Balance Sheets

[1] Cf. the first Annual Report of 1890.

[2] *Statist*, 7 July, 1894. Cf. also British Consular Report quoted in *Bankers' Magazine*, 1894, II, p. 644.

[3] B.D.O.W., Vol. IV, 321. Foreign Office Memorandum on British Policy in Persia.

had been the holding of Persian 6 per cent Loan standing at £135,900, which the auditors continued annually to report (until they were discharged and replaced by others) as having "at present no saleable value at this figure." By incurring fresh loans to the Banque des Prêts, the Persian Government was able to pay off this old one. But by the granting of still further loans in exchange for railway and other concessions, the Russian economic and political position in Persia was so much strengthened relative to that of Great Britain that the British Government was forced to counter-action, in the shape of yet more loans to Persia through the medium of the Imperial Bank, the money required for these experiments being furnished by the Government of India, while the Imperial Government bore half the risk. To balance the Russian interests, the securities sought and granted for these loans took the form of hypothecation of the postal revenues, the Caspian fishing dues, and the Gulf Customs; and further important concessions were granted on the initiative of the British Ambassador in Persia, notably the famous D'Arcy Oil Concession.

In 1907, the hostility between Russia and Great Britain gave way to an understanding, partly for reasons external to the Persian question, and partly because the appearance of rivals on the scene united the opposing camps. In France the representations of Sir Edward Grey [1] had been sufficient to bring forth the promise that French banks would be discouraged from lending to Persia. But German enterprise was not so easily damped down. Desirous of utilizing the financial needs of the Shah to serve the end of intensive German penetration of the Near East, the German Chargé d'Affaires in Tehran obtained in July, 1906, a concession to establish what his superiors in Berlin called a "purely commercial bank" in Persia, "where Germany had no political interests and only wished to develop her trade." [2] The Chargé d'Affaires had of course other ideas, and envisaged the German bank as a lender to the Persian

[1] B.D.O.W., Vol. IV, 399.
[2] *Ibid.*, 351. Report of conversation of German Chargé d'Affaires in London.

Government, and an official concession hunter just like the other banks.[1] But it is clear that the intention of the German Government, which was very anxious at that time to avoid friction with England or Russia, was to refrain on any account from giving the appearance of political interference in Persia.[2] In the event, it could interest only one German bank in the prospect of opening branches in Persia,[3] and it was this bank—the Deutsche Orient—which eventually started in Persia in 1907 " in spite of England," [4] and under suspicion from Russia.[5]

Its enterprise was ill rewarded by its own Government. Anxious to buy off Russian opposition to her plans of extension for the Bagdad railway, Germany, in July 1907, had willingly eliminated from the final bank agreement drawn up in Tehran by the triumphant German Minister and a Deutsche Orient Bank director, all the conditions which conflicted with her assertion that the bank was a private one.[6] The bank, which probably foresaw difficulties arising in any case from the unfriendly attitude of the dominant Powers in Persia, could hardly be expected to go forward on the basis of this rather uncertain support from its own Foreign Office, which had in addition, meantime refused a Persian request for a loan. In spite of some pressure from the German Foreign Office and from Persian and Turkish quarters,[7] the Deutsche Orient Bank decided

[1] " Die Existenz der Bank würde der Kaiserlichen Gesandtschaft die Beitreibung aller Reklamationen zu einer leichten Aufgabe machen, da dieselben—wie dies auch die Engländer und Russen tun—einfach von etwaigen Vorschussen abgezogen zu werden pflegen." *Die Grosse Politik*, Vol. 25, 8573. The German Minister was told that the Persians also desired a German President for their new National Bank, then projected, and German banking co-operation with it.—*Ibid.*, 8579.

[2] The Minister in Tehran was told : " Wir fördern Bankfrage lediglich von Standpunkt unsere Handelsinteressen."—*Ibid.*, 8576.

[3] This was the Deutsche Orient Bank, although at first no name was mentioned. Cf. B.D.O.W., Vol. IV, 374. It was founded in 1906 by the Dresdner Bank, the National bank fur Deutschland, and the Schaafenhausen'sche Bankverein.—Strasser, *Die Deutschen Banken im Ausland*, München, 1925, p. 100.

[4] Caillez, *L'Organization du Crédit au Commerce Exterieur*, p. 79.

[5] De Siebert, *Entente Diplomacy and the World*, New York, 1921, p. 475. Protocol of Deliberations of the Russian Ministerial Council of 1 Feb., 1907, on the Project of a Treaty with England.

[6] *Die Grosse Politik*, Vol. 25, 8579, Note 3.

[7] *Ibid.*, 8587. Footnote on p. 100.

eventually not to take up the much emasculated concession, and withdrew shortly afterwards.

These incidents were nevertheless instrumental in driving England and Russia into an agreement in 1907 for the participation of Persia into Northern (Russian) and Southern (British) spheres of influence. But the few years of concord between the Powers which followed the successful conclusion of this agreement were scarcely less embarrassing to the British Government than the period of intense antagonism which preceded them. Russian anxiety to put down the Nationalist movement in Persia as inimical to foreign rights and interests involved Great Britain in an unwilling and uncomfortable partnership in acts of oppression of which her citizens could scarcely approve. In extremity, the Persians not unnaturally failed to make the nice international distinctions required by the facts of the case. In the riots of 1909, the manager of the Imperial Bank was shot at, and the premises of the bank itself had several times to be used as a refuge for British residents in the city of Tehran. The need for financial and administrative reforms after the granting of a Parliamentary constitution in Persia in 1906, and the final fall of the Shah in 1909, was particularly pressing. But the two Powers refused to grant any more loans to facilitate these, except on conditions which would have meant a virtual abdication by the Persians of the economic sovereignty of their own country. At the same time, outsiders wishing to lend were warned off—the Crédit Lyonnais and the Banque de Paris in 1910 in France for instance, and the firm of Seligmans in England in the same year. The Foreign Office in the latter case expressed their " inability to support any action which would be detrimental to the Imperial Bank of Persia." [1] Thus from 1910 until the outbreak of the War, England and Russia kept a tight and exclusive hold on Persian economic life through their official banks. It may be said of the Imperial Bank that its moderate results in the commercial sense were in inverse relation to its effectiveness as a political weapon.

[1] *Economist*, 1910, p. 976, quoted by Feis, *op. cit.*, p. 374.

CHAPTER V

FINANCIAL PIONEERING IN NEW COUNTRIES

(*a*) Latin America

From the commercial point of view, Latin America may be divided roughly into four great regions, each with distinct economic characteristics and products. First, the Amazon basin, producing mainly coffee, rubber, cotton and sugar; second, the River Plate basin, famous for its grain and live-stock, and containing over half of the population of South America, as well as considerably more than half of its total wealth; third, the West coast, including Chile, Western Bolivia, Peru and Ecuador, and consisting largely of the rainless and barren slopes of the Andes, yielding valuable mineral products in the form of copper, tin, and nitrate, but with important agricultural and pastoral industries also, in the few fertile parts. The north coast and Central America is, finally, another homogeneous economic area, forming a tropical zone with characteristic tropical products in addition to the precious metals mined in the Central American States. From the banking point of view, the political divisions of the South American continent might also be grouped in accordance with the respectability or otherwise of their history in currency matters. The Argentine and Uruguay head the list (though with records far from stainless), with Bolivia, Peru, and Ecuador in the second place, their currency systems being liable to collapse under strain. Brazil, Paraguay, Chile, and the Central American States would certainly be placed last. These various rough groupings suggest the course of British banking penetration into the whole area during the nineteenth century; the banks sought the richest and financially most stable regions first, and after a long period of special-

ization in one area, gradually extended their interests until at present, in the typical case, they embrace the whole continent.

From 1860 onwards, the attractions for British banks in Latin America were very strong. International trade with Great Britain and other European countries was developing fast, and British capital exports were flowing freely in the direction of the new republics. The turbulent struggles of petty militarists, which, in travesty of the work of Bolivar, had dominated the scene since the Wars of Liberation, were becoming less frequent, as the economic development of the various States inevitably thrust the ambitious military personality into the background. Local business activities were providing the nucleus of a class interested in the maintenance of stable government, and foreign capitalists, scenting the potentialities of an enormous under-developed area, were quick to seize the slightest opportunities for secure exploitation.

But the degree of security offered was in general decidedly low, and at best uncertain. Despite the safeguard of democratic constitutions modelled on those of France and the United States, the outward show of advanced parliamentarism often thinly concealed the autocracy of a self-styled Liberator and the futile mechanics of elections held under military pressure. Public security thus precariously and arbitrarily maintained, was perpetually endangered by recurring cycles of economic distress, when the "foreign drain" for the service of the external debt would begin to attract unfavourable notice, and the anomaly of large European loans used to provide administrative sinecures for corrupt bureaucracies would be felt intolerable. Continual internal conflicts and protracted wars between the States themselves thus acted as a damper on commercial enterprise throughout the continent, and with few undertakings was this more marked than with the foreign banks, whose business, whether of issue, discount, or exchange, was particularly liable to derangement through these political upheavals and their economic consequences. Thus, in general, the banks followed rather than preceded other British capital

imports, their original business in the Argentine and Brazil, for instance, being to administer the new British railway funds in these countries.

Outside the largest business centres, there was little security for life and property at all. In 1871, emigrants to Peru, for instance, were officially advised [1] to come in parties of not less than ten, and to bring revolvers and "stout dirks" with them. The British Consul at Rio de Janeiro reported [2] in 1870 "the absence of any real security for human life." And, at the same time, the administration of the civil law left much to be desired in many of the States, whether on account of rampant political nepotism or sheer incompetence. If it could be done with impunity, the tendency was to interpret the law against the rich and probably defenceless foreigner. Legal formalities were cumbersome, and the judges, in many cases, were either ignorant and overpaid political appointees, or underpaid, open to bribes, and liable to blackmail litigants. Even in the Argentine, judicial corruption was the rule in the minor courts, and in Peru it was stated that all the judges could be bribed from the Supreme Court downwards.[3]

A business atmosphere thus characterized could hardly be described as congenial from the point of view of new foreign banks controlled (before the days of the telegraph) thousands of miles from the scene of operations, and faced with the risks of a relatively new business. The tenacity with which the first banks clung to their positions in face of very severe losses in the early years is therefore noteworthy. In general, they tried to minimize the difficulties by obtaining specific legal authority to do business to begin with, by being particularly careful in their choice of staff, by relying upon legal enforcement of their claims only as

[1] Consular Report, B.P.P., 1872, Vol. LVIII, p. 589.
[2] B.P.P., 1870, Vol. LXIV.
[3] Akers, *History of South America*, London, 1930, p. 577. He instances a banker's advance of 10,000 gold dollars to buy a third vote of 5 judges of the Supreme Court. In Brazil, the British Consul at Rio Grande reported after nine years' residence in the country (B.P.P., 1862, Vol. LVIII, p. 640) that "the administration of the civil law is of all the departments of the Government the most faulty and even injurious, as the abuses of the law, at all times sufficiently manifest, seem purposely exaggerated in the case of foreigners."

a last resort, and by maintaining strict neutrality in the midst of political disturbances. But their apprenticeship period was protracted and costly.

The first British bank in South America, and for a long time the most successful and best managed, was the London and River Plate Bank, projected as the London, Buenos Aires, and River Plate Bank in August, 1862, by Henry Bruce, a director of the Colonial Bank, James Hackblock, of the City Bank, and a representative group of Buenos Aires and Monte Video firms and London merchants trading in South America. The promoters were assured by the Argentine and Uruguayan Consuls that their Governments would encourage the establishment of a sound bank to further their commercial relations with Great Britain, and the unusual course was taken of permitting applications for shares in the capital of £500,000 to be lodged at the Consulates. In the case of the Argentine Government this benevolence was probably sincere. The want of proper banking facilities in that country had been felt for a long time, and in 1854 the Finance Minister had been specifically authorized to negotiate with capitalists, native or foreign, for the foundation of a large new bank. The Minister approached Buschental, a renowned Argentine capitalist and speculator, with a concession to establish a bank of discount, deposit and emission, with a capital of $4 millions. Buschental, however, failed to get together the necessary capital, and a second attempt made to get Trouvé Chauvet, the French bankers, to take up the concession was also unfruitful. The Government now negotiated with Baron Mauá, a Brazilian financier, who finally got a small bank started in 1858. But this was subject to some mistrust as the fruit of attempts by the Brazilian Government to obtain political influence in the Argentine[1]; and even the Mauá Bank could not get the capital required by the concession, which remained unfulfilled in so many other respects that it was revoked in 1860. Thus the London Bank, which had been in contemplation for some time, owing to a persistent

[1] Pinero, *La Moneda, el Credito y los Bancos en la Argentina*, Buenos Aires, 1921, pp. 224 *et seq.*

difference in money rates between London and Buenos Aires varying from 10 to 15 per cent, started at an opportune moment. Just after the opening of the Buenos Aires branch on 22 January, 1863, the Government showed its desire to encourage the formation of more banks by the passage of its Free Banking Act, modelled on the American National Bank Act. And more important still, a temporary political peace reigned in the newly formed Argentine Confederation.

The bank now opened a further branch at Monte Video, and increased its capital to £1 million in order to impress the local Governments.[1] In the first five years of its existence, it gave promising evidence of a prosperous future by paying an average dividend of over 12 per cent, and accumulating a reserve of £145,000, in spite of difficulties with the gold and paper currency of the Argentine, and a struggle against unsound local banking practices. But in Monte Video, ominous difficulties began to appear. In 1866, the Government took advantage of the disturbed state of the country to permit the suspension of specie payments (which the bank disregarded) and followed this up by decreeing forced currency for the notes of its own official banks, which the London Bank had to accept at their gold face value, sustaining a loss of 15–20 per cent in the process. In 1871, the situation in Uruguay became considerably worse. Trade was contracting fast, a civil war was devastating the country, and a serious financial crisis impending under the threatened imposition upon the financial system of a National Bank with uncontrolled powers of note issue.[2]

Civil war, with all its destructive consequences, was by no means unprecedented in Uruguay, the unfortunate country which, according to Bryce, "saw more incessant fighting from 1810 till 1876 than any other part of the world for the last hundred years."[3] The shareholders of the London Bank were told[4] that the "state of chronic war or

[1] Annual Report, 1863.
[2] Cf. Consular Report from Monte Video, B.P.P., 1871, Vol. LXVI.
[3] "Nevertheless the country has continued to grow in wealth and population. Capital has flown in freely to build railways. . . ."—Bryce, *South America*, London, 1912, p. 362.
[4] Annual Report, 1872.

discord between parties" in Uruguay, "did not much interfere with the progress and development of the country"; but in 1875, the Monte Video manager sent in a very long and vigorous complaint [1] to the British Consul about the misdoings of the Government, which throws perhaps a truer light on the actual situation. Thirty-seven different projects had been published recently for Government issues of paper money, and legislation had so interfered with the course of business, that the commercial body had signed a compact not to take advantage of any Government decree and to pay all obligations in gold. The Monte Video branch of the Mauá Bank, lately declared bankrupt, was now rehabilitated on the basis of a large loan to the Government, and given retroactive fiscal privileges which permitted it to set aside prior mortgages for subsequent charges made in its own favour. The Government had even alleged that the published Balance Sheets of the London Bank were false and proposed to close it up because it would make no Government loans! These and many other grievances "completely destroy the grounds of the confidence which was one of the strongest influences that led to the establishment of our bank here."

In the Argentine, there were failures aggregating £10 millions in 1875, and the bank was obliged to curtail its operations sharply. A vituperative Press campaign in the Buenos Aires newspapers was also causing anxiety and induced the Buenos Aires manager to protest to the Provincial Government. But worse anxieties were to come.

At that time the Argentine Confederation was but loosely bound together and the bank happened to possess a branch doing a thriving business at Rosario, in Santa Fé, then one of the most unruly provinces of the union. Its chief rivals were the Provincial Bank and the National Bank—both shaky institutions—in each of which the local Government had a considerable shareholding. The Provincial Bank had been in fact partially capitalized from the 7 per cent loan of £300,000 sold by the Santa Fé Government in London in 1874. But a year after its foundation, its solvency was

[1] Letter dated 15 Nov., 1875, F.O. 6/329.

deemed so doubtful that people began to change its notes for those of the London Bank, which was consequently obliged to clear large quantities of the suspected notes daily. Similar doubts were felt about the National Bank,[1] which had been founded on the failure of the Mauá Bank to take up a concession in Rosario effectively [2]; and lack of confidence in both these banks was in 1875 gradually diverting all business including note circulation to the London Bank.

In June, 1875, the Government came to the rescue. Following a proposal to tax deposits in *all* foreign banks,[3] a decree was issued depriving the London Bank of its right of note issue, and exempting the official banks from taxes and stamp duties and the payment of $6,000 for a banking licence. The London Bank immediately brought suit against the Provincial Government in the Federal Court on the ground that it already held a Government concession, with note-issue rights, granted in 1865, and had moreover bought a licence for general banking business which had not yet expired. The decree of November, 1865, certainly did convey authority to commence a banking business, including the issue of legal tender notes, and mentioned specifically that the London Bank should be granted whatever privileges were subsequently given to other banks. Nevertheless, the suit based upon it ultimately failed. While it was being contested the bank protested energetically to the Santa Fé Legislature, to the Argentine President, and to the British Minister Plenipotentiary at Buenos Aires,[4] and from these protests there emerged the additional and not unimportant grievance that the bank was no longer allowed to pay Government dues in coupons of the Santa Fé internal loans (on which no interest or amortization had been paid for years).

[1] In 1890, both these banks were discovered to be issuing old notes returned to be burnt, advancing huge sums to their managers, and dissipating their capital in fruitless speculation. They formed a typical element in the "mammoth swindling activities of the Celman clique." —*The Times*, Sept. 21, 1890.

[2] Consular Report, B.P.P., 1862, Vol. LVIII, p. 631.

[3] *B.A. Standard*, 8 June, 1875.

[4] Letter dated 25 Nov., 1875, F.O. 6/345, begging the Minister "to let this matter have such attention as you may consider it deserves."

Here occurred the crowning act of arbitrary injustice and maladroit diplomacy. On 19 May, 1876, the Santa Fé Government decreed the compulsory liquidation of the London Bank at Rosario on the ground that "the bank had converted itself into an institution ruinous to the public interest as well as hostile and dangerous under present circumstances to the credit of Santa Fé both at home and abroad."[1] The astounded manager's request for explanations was met by the proposal of the Finance Minister that the decree would be withdrawn if the London Bank would lend the Provincial Bank $500,000[2] (about £80,000). To gain time the manager promised to consult the Buenos Aires office, but before this could be done, police had forcibly removed $18,000 in gold from the bank's treasury and imprisoned the manager for impeding the liquidation.

The dispute had now assumed serious proportions, and the British Minister at Buenos Aires was induced by the bank to order the gunboat H.M.S. *Ready* from Monte Video to Rosario in order to protect the remaining securities of the bank there. And this might have led to serious complications at this stage, had not the gunboat been recalled before it had reached its destination, at the request of the Argentine Foreign Minister, who guaranteed the safe custody of the bank's property.

Explanatory reports now began to reach the Foreign Office. "The decree for liquidating the only solvent bank in the country," explained the British Minister in Buenos Aires,[3] "together with the imprisonment of the manager, are mere subterfuges intended to cover an act of spoliation by which it is hoped to save the Provincial Bank." But the Federal Government was too weak to coerce the powerful province of Santa Fé into restitution,

and that too at a moment when a rising is apprehended at Entre Rios which would certainly be joined by Santa Fé should the

[1] Letter from London Bank, Head Office, London, to F.O., 25 April, 1876, F.O. 6/345.
[2] Manifesto of the London Bank, *B.A. Standard*, 31 April, 1876.
[3] Letter to F.O., 1 June, 1876, F.O. 6/345.

latter be called to account by the National Government for so slight an offence as an act of plunder upon the foreigner.

The Consul at Rosario agreed [1]:

> The alleged pretext for this extraordinary proceeding is so frivolous that it may at once be qualified as an arbitrary act on the part of the Provincial Government, its known purpose being to bolster up the tottering credit of the Provincial Bank.

Through the courtesy of the German Ambassador in London, the Foreign Office was also in possession of a report from the German Chargé d'Affaires in Buenos Aires to his Government, and this threw some additional light on the affair. It speaks of

> the extraordinary animosity against the English Bank here. The inland banks, which have all become shaky, look with envy upon this institution in foreign hands which is still as firm as ever and threatens to engross all the monetary business. In the various circles concerned, it is thought very hard that the English Bank has neither helped the Provincial Bank in its necessities, nor made advances to the National Bank.

But from the time of the Government intervention, "the whole affair presents a series of illegalities and violent acts, which ought not to have been possible in a country that considers itself entitled to claim a place amongst modern civilized States." This indignation was partly explicable, no doubt, by the arbitrary arrest of the bank manager, who happened to be a German, but confirmation of the local British view of the whole proceeding is noteworthy, coming from such a source.

Buenos Aires' opinion, admittedly antipathetic to the Provinces already, and for political reasons, was yet unusually loud in condemnation. "The unprecedented proceedings of the Government of Santa Fé show all the aggravating characteristics that make them most degrading to the dignity of a civilized people." [2] "All that could be said and done in order to condone the proceedings of that arbitrary Government would be little compared with the

[1] Letter to F.O., 12 June, 1876, F.O. 6/345.
[2] *La Tribuna*, Buenos Aires, 3 June, 1876.

enormity of the offence." [1] "However this offence is regarded, it deserves the most spontaneous and severe condemnation." [2] In London the securities of the Santa Fé Government were naturally affected adversely, and strong comments were made in the City.

A more glaring example [said *The Times*] [3] of the disregard not merely of law but of ordinary civil propriety on the part of these so-called Republics of South America could not well be given. . . . Its effect here is likely to be little short of disastrous.

The Santa Fé Government nevertheless continued its campaign against the London Bank, accusing it of persistent hostility towards every other bank and the desire to secure a monopoly by annihilating competing institutions. The truth is that these were so incompetently run or so flagrantly mismanaged for Government purposes, that no confidence whatever was felt in them, a situation from which the London Bank could not help drawing advantage.

Energetic action was now taken by the British Minister at Buenos Aires, who in a strongly worded protest to the Argentine Foreign Minister characterized the affair as "one of the gravest offences against the subjects of a friendly Power," admitting however in his report to the Foreign Office, that the precarious state of the Republic rendered the success of his interference doubtful.[4] Meantime, the Chairman of the London Bank, George Drabble, fortified by many years residence in the Argentine, and intimate friendship with Dr. Irigoyen, the Foreign Minister, arrived at Rosario, to try to obtain the restoration of the plunder.

It is not impossible [wrote the British Minister] [5] that the arrival of Mr. Drabble, who in the midst of the general monetary

[1] *La Nacion*, 4 June, 1876. [2] *Ibid.*, 6 June, 1876. [3] 1 July, 1876.

[4] It is of interest to note that at this very moment, when the affair threatened to develop into a serious international question, the English agent of the Central Argentine Railway Co. was negotiating with the Provincial Government on behalf of Thomson, Bonar & Co., for a new bank to be established in replacement of the London Bank! "I think," wrote the British Minister, commenting on this, "we need hardly consider the interests of rival bank schemes, of which the promoters, with more greed than patriotism, desire to take advantage of the present difficulties of their countrymen as represented by the London Bank."—Letter to Commander of H.M.S. *Beacon*, 7 Sept., 1876, F.O. 6/345.

[5] Letter to F.O., 14 July, 1876, F.O. 6/345.

crisis in this country, is looked upon as the harbinger of better times, may enable the National Government to exercise that influence upon an insolvent and recalcitrant Province, which the prospect of a money loan at such a moment is sure to give.

The chairman was met at first, however, by the blunt intimation from the Rosario authorities that there had been unnecessary delay in liquidating the bank and by threats to make another descent upon its treasury if greater alacrity were not shown. Drabble admitted that further trouble might have been avoided if he had agreed with a suggestion to amalgamate his branch with the Provincial Bank or make a loan to the latter, but the obvious objections to this course made him decline the offer and entrust the bullion of the bank to the gunboat H.M.S. *Beacon*, which had been ordered to Rosario, and now lay at anchor there.

Baulked by the intransigence of the Santa Fé Government, Drabble and the British Minister now made an effort to obtain restitution of the stolen specie from the Argentine Federal authorities, this time with success. The very critical position of affairs in the country, and the possibility of a break-up of the Federation, followed by endless disorder, weighed much in the decision to demand an immediate settlement, though it is fair to add that the Minister also expressed himself greatly piqued by a chance remark of the President—"*los Ingleses hablan—no hacen*," and by a suggestion in Argentine official quarters that the Bank question "could be settled by the exchange of a few notes, when the subject would be allowed to drop." [1] At any rate, his peremptory note to the Argentine Foreign Minister was severe in tone, and backed by the threat that if restitution were not made, the British Government would demand compensation from the Federal authorities in Buenos Aires, not from the Provincial Government. Some sound reasons for an immediate decision were pointed out. The commerce of Rosario had been nearly suspended since the decree for the liquidation of the London Bank, and the consequent cessation of custom dues would embarrass the local Government. Traffic on the Rosario–Cordoba Railway had also almost

[1] Letter of British Minister to F.O., 30 Aug., 1876, F.O. 6/345.

ceased, and this would involve the Argentine Government in the annual payment of £100,000 to the English shareholders, under a guarantee of interest. To run these risks and to jeopardize Argentine credit as well, was not worth the relatively small sum involved. The Argentine Government gave way.

The decree [1] of the Santa Fé Government of 28 August, 1876, authorizing the return of the specie, stated rather lamely that as no one apparently wanted to convert any more London bank-notes, the money would be restored,

> it being necessary to dispel the mere suspicion which to the detriment of the credit of the Government, people have endeavoured to spread abroad . . . to wit, that the Government has disposed of the sum in deposit and has refused to return the same to the bank even after this establishment had converted its very last note in circulation.

In fact, the Santa Fé Government *had* spent the plunder and had to be accommodated with a loan from the Federal authorities in order to make restitution.

A month later there followed another decree rescinding the liquidation, and after the bank had sacrificed its Rosario manager to the righteous anger of the Government by transferring him to Monte Video, even its note-issuing privileges were restored. On the whole, the bank had come through the incident with great good fortune and no lasting damage. But the whole affair well illustrates some of the risks inherent in foreign banking in South America at a time when the political instability of the States was a by-word in Europe and a standing warning to the European capitalist.

Ten days after the London and River Plate Bank had opened its branch in Buenos Aires, the London and Brazilian Bank started its first branch at Rio.[2] This bank was projected by some important names—Bischoffsheim, the notorious contractor for South American loans, Grenfell, Pascoe Glyn, and Cavan, Lubbock & Co.—with a capital of

[1] Copy in F.O. 6/345.

[2] "Where the *minimum* rate for best mercantile paper at the banks varies from 8 to 9 per cent."—Prospectus in *The Times*, May, 1862.

£1 million. In the year of its foundation, it amalgamated with the Anglo-Portuguese Bank, another recently founded concern with a capital of £500,000, and well-known sponsors, including two directors of the Union Bank of London, Mangles, Chairman of the Royal Mail Steam Packet Company, the Brazilian Vice-Consul, and a director of the South-Eastern Railway of Portugal. The object of the amalgamation was to get the benefit of the existing commercial and financial connections between Portugal and Brazil without competition, the London and Brazilian Bank having already opened a branch at Lisbon.

The first year of the bank's career in Rio was a fortunate one. It did a very important business, its transactions for the year aggregating more than £10 millions,[1] and its capable administration attracted confidence. Moreover, it was reported to have had official favour from the Government to protect it from the intrigues of "great private bankers" (probably the Rothschilds) who were opposed to it.[2] But unfortunately it started operations two years before the war with Paraguay of 1865–70, and just before the acute financial panic of September, 1864, in Brazil, when the Bank of Brazil, a Government bank on the model of the Bank of France, had to stop specie payments, and several private banks had to close down. A general suspension for sixty days followed, from which the London Bank was lucky to emerge with nothing worse than losses of £13,000 at Rio and Pernambuco, and a violent fall in the London price of its shares, which moved from 24 per cent premium to 10 per cent discount in a few days.[3]

In 1865 a grandiose scheme was initiated for the amalgamation of the bank with Mauá & Company, the Brazilian banking house of Baron Mauá, which had important connections in Monte Video, Buenos Aires, Rosario, and other cities. The scheme, if carried through, would have made the amalgamated bank the largest bank in South America,

[1] Report of Consul at Rio, B.P.P., 1865, Vol. LIII, p. 383.
[2] *Bankers' Magazine*, 1862, p. 339.
[3] At the Annual Meeting in 1865, there were suggestions that Bischoffsheim had made use of information obtained as a director, to engineer extensive speculations in the bank's capital.

with a capital of £5 millions and established branches at Rio, Pernambuco, Bahia, Santos, Sao Paulo, Rio Grande, Pelotas, Porto Alegre and Para in Brazil, and Monte Video, Paysandu, Mercedes, Rosario, Salto and Buenos Aires in the River Plate. But the Overend Gurney crisis in England, and its reactions on the rest of the commercial world, effectively put a stop to the negotiations, and again involved the bank in heavy losses in Brazil.

The Mauá amalgamation might otherwise have been a fruitful one. The Mauá Bank had, in common with others, suffered serious losses in the crisis of 1864; but there had been a quick recovery and energetic negotiations in Europe for capital to supply the widespread branches, and to build up a European-Brazilian bank so as to feed the Brazilian concern with new business. Due to the suggestion of a London stockbroker, the London and Brazilian amalgamation project was accepted a short time before the reverberations of the Overend Gurney crash rolled round the commercial world. The crisis, wrote Baron Mauá afterwards, "has singularly altered the relative position of the establishments."[1] The recent revelations about the operation of the limited liability law in England

> render it perilous to make any species of property represented in shares transferable in London, especially of establishments whose very existence depends on credit, since that property lies absolutely at the mercy of unscrupulous stock jobbers, who, operating on the exchange of London, live by the rapine they may realize by spreading rumours hurtful to the credit of any establishment it may please them to attack, having previously sold shares to deliver as the exchange regulations permit.

This was a reference to bear selling of the London and Brazilian Bank shares, which at one time had been forced down to 33⅓ per cent discount. The Brazilian shareholders (representing about three-fifths of the capital of the projected amalgamation) finally broke off negotiations and the contracts were cancelled.

The losses suffered by the bank in Brazil as a result of the crisis were crushing. These were the years when it was

[1] *The Times*, 2 Jan., 1867, quoting *Anglo-Brazilian Times*.

admitted that all the larger Brazilian cities were over-supplied with banks, which were driven by competition to financing the riskiest speculations in produce. The Government Bank of Brazil was heavily involved. At Pernambuco in 1863 it was reported [1] that nearly the whole of its capital was represented by the absolutely worthless bills of insolvent persons (and a large deficiency in the cash left by an absconding cashier). The private banks were all considerably weakened by over-trading, and in no fit condition to withstand the heavy demands which a serious financial panic would make upon them. In May when news of the Overend Gurney crisis reached Brazil, "they thought all England was going to fail." [2] There was a run on the London Bank, which naturally suffered from its English connections, and had to pay out a million pounds in a fortnight. The Bank of Brazil at first refused help, but the Government was eventually induced to discount some of its own Treasury Bills, and to authorize the Bank of Brazil to come to the rescue. Losses in Rio amounted to £50,000 and in Pernambuco to £30,000, mostly arising from the fall in cotton and from imprudent advances on mortgaged plantations; to these were added further losses next year arising out of exchange and bullion transactions. Altogether the directors wrote off £277,000 in 1871 for the total of losses since 1866, due partly to the effects, direct and indirect, of the crisis, and partly to disturbances to business caused by the war with Paraguay.

As soon after this as 1870, the banks at Rio were again being criticized for over-trading.[3] But the London Bank had learnt its lesson. Chastened by its early experiences, it reconstructed under the name of the New London and Brazilian Bank Ltd., and pursued afterwards a more cautious if less immediately profitable course.

Its sole British competitor in Brazil, in the early days,

[1] B.P.P., 1865, Vol. LIII, p. 367.
[2] Report of the London Bank, 1867.
[3] "Facilities for trading without capital have been brought to everybody's door, with the necessary result of overdoing the business . . . The action of the banks here has been prejudicial to the maintenance of a sound commercial system."—Consular Report, B.P.P., 1870, Vol. LXIV, p. 241.

fared no better. This was the Brazilian and Portuguese Bank, founded by a group of London merchants trading with Portugal, in conjunction with local Brazilian houses. Thirty-five thousand of the fifty thousand £20 shares were subscribed for in London, and the bank sought and obtained special concessions in Portugal and Brazil, opening its Rio branch on 2 March, 1864, just before the panic of September. The new bank got quickly to work and ten days before the crisis it had nearly all of its capital out in discounts.[1] This activity naturally brought a heavier share of the subsequent losses, to which were added others caused by the depreciation of the Brazilian exchange, and the contraction in trade caused by the war with Paraguay. The bank got a fresh start with a reconstruction, from which it emerged as the English Bank of Rio, and gradually established a place for itself in the Brazilian exchange market. In 1891, it was again renamed, this time as the British Bank of South America, in order to indicate its object to cultivate a wider field; but up to 1910, its growth was comparatively slow.

A further interesting member of the Latin-American group was the London Bank of Mexico and South America, a union of the London and South American Bank, of which Cargill of the Oriental Bank and two directors of the London and County Bank were promoters, and the Mexican Bank, with John Paterson, the well-known founder of the Standard Bank of South Africa, on the board together with directors from the Alliance Bank and the London and County Bank. The Mexican Consul was given a seat on both boards, and first-class English houses trading to Latin America were also well represented. Both banks were created to exploit new areas, the first Peru, Chile and the west coast of South America generally, and the second Mexico and Chile, the second being formed in 1864 expressly for amalgamation with the first.

[1] The official Returns of August 21, 1864 (quoted in London and Brazilian Bank Report, 1864) show:

	Capital.	*Discounts.*
	$	$
Bank of Brazil	33,000,000	36,372,212
London and Brazilian	13,333,333	5,276,950
Brazilian and Portuguese	8,888,888	7,160,027

The London and South American Bank opened its first branch at Lima on 21 September, 1863, with an official promise of freedom from taxation and equal participation in any future banking concessions, with encouragement from the President of Peru, and with the sure knowledge of a field free from any European competition whatever. In the first year, the Chilian Government requested the bank to open a local branch, but no connection could be established with Mexico, because soon after the foundation of the Mexican Bank, the country was plunged into a state of complete anarchy by the revolt against the Maximilian regime. Had the French expedition been finally successful, however, the Mexican Bank would probably have occupied a much less important position than it actually did; for during the Maximilian period, powerful banking interests in Paris, represented by the Pereires, Hottinguet, Mallet Frères, and Fould Oppenheim & Co., were preparing, in conjunction with Barings,[1] an imposing scheme for a National Bank of Mexico; and the London flotation was regarded with disfavour in France,[2] since it had no special concessions from nor was it formed under the auspices of the Mexican Government.

One of the first acts of the London Bank had been to secure a concession from the Colombian Government giving it the exclusive right for twenty-five years of issuing legal tender currency, and of acting as Banker to the Government in Colombia and in Europe.[3] But the catastrophic fall of Maximilian and the withdrawal of the French brought about the complete collapse of the French bank scheme for Mexico, and provided a sharp object lesson for the directors of the London Bank, who threw up their concession in Bogota in 1867 and stood resolutely aside from connections now offering with any Government in Mexico. Rather than risk unfortunate adventures like the French, the directors bound themselves not to identify the bank with

[1] *Bankers' Magazine*, 1864, p. 1143.

[2] *The Times*, 17 Feb., 1864. Some agreement was stated to have been reached in 1865, after the London Bank amalgamation (1st Annual Report of the London Bank).

[3] *Bankers' Magazine*, 1864, p. 805.

any Government whatever, so that they would thus be uncompromised by any political changes that might take place.[1]

This policy was soon put to a severe test. In Peru, the revolution of 1872, which arose out of dissatisfaction with the regime of President Balta (who had himself gained his place by a revolution), provided some extremely anxious moments for the Lima manager of the London Bank as well as ample vindication for the bank's attitude of complete political neutrality. The bank was accused by the usurping Gutierrez Government of lending money to Don Manuel Pardo, a constitutional candidate, in order to provoke a counter-revolution. Fortunately, the manager was able to prove that the Pardo cheque on which the charge had been based, was a forgery. But General Gutierrez himself now demanded a large loan from the London Bank and from the other banks in Lima. The banks met on July 25, 1872, and " it was resolved in order to avoid the exercise of forcible measures on the part of the Government to lend them 200,000 dols." [2] After two days of extreme suspense, during which President Balta was assassinated in his prison, a brother of the dictator Gutierrez was shot dead in the streets, and incessant firing went on from behind barricades thrown up in the principal thoroughfares, an effective counter-revolution was organized. The mob stormed the Palace, killed the principal remaining members of the Gutierrez family, and restored constitutional government once more. The banks breathed freely again, and the Lima manager of the London Bank made the following prosaic but significant entry in his diary :

July 27. Called at the Palace on J. de la Riva Aguero, the new Minister of Finance, who referred to the loan to the Gutierrez Government of the 25th inst. 200,000 dols. of which only 50,000 was actually paid over, and stating that the new Government, being in want of funds, is desirous of taking the remainder of the amount with the same security, and expressing his readiness to recognize the liability of the nation for the debt.

[1] Annual Reports, 1865 and 1866.

[2] The whole story appears in the diary of the Lima manager, published in the *Bankers' Magazine*, 1871.

There followed in 1879, the war between Peru and Chile, during which the bank had to take its orders from Chilian military chiefs in possession of Peru. The conclusion of this war was followed by civil war in Peru, when the bank contracted its business and withdrew all its Peruvian notes from circulation, doing its utmost to avoid entanglements with any political faction.

In Mexico, once established, the bank had to begin business in a similar atmosphere of political disturbance. In addition, no banking laws whatever existed in the country until the official registration of the by-laws of the London Bank in 1864.[1] When the bank was started, without a special concession,[2] it met with violent opposition from the old commercial houses, and much criticism on the ground that it did not publish its local accounts.[3] But by dint of skilful management, scrupulous fulfilment of its obligations, and refusal to make speculative loans to Governments, it rapidly won respect. Its notes gradually found their way into circulation, and the bank became in time the leading commercial bank in the country, with no competition except from mercantile firms.

During the second successful Diaz administration, foreign capital began to flow much more freely into the country, and in 1881 a special concession was granted to the Parisian Crédit Franco-Egyptien to establish the National Bank of Mexico, as a bank of issue without monopoly, but with a charter officially endorsed by the Government. To this institution the London Bank had to take second place, and when, by the banking law of 1884, the issue of notes without a Federal Government concession was prohibited, its position was further prejudiced. The bank had to seek a local charter, and when it bought one from a native bank, this was found to require Mexican domicile. The Mexican business was consequently sold to a locally incorporated

[1] Consular Report, B.P.P., 1890, Vol. LXXIII, p. 491.

[2] The bank probably preferred not to risk its money in buying rights and privileges that might prove to be worthless subsequently. A National Bank concession had been on offer, by the notorious Santa Anna, as early as 1853, but, not unnaturally, came to nothing.

[3] Cf. Conant, *Banking System of Mexico*, U.S. National Monetary Commission Document No. 493, Chap. I.

concern—El Banco de Londres y Mejico—and the London Bank took two-thirds of its £1,500,000 of capital. The remaining shares were sold in Mexico at a premium of 100 per cent, thus yielding a substantial payment to the London Bank for a share in the goodwill of its business.

Dozens of new banks were now chartered by the Government for English, German, and American promoters, but the Banco de Londres still easily held second place in 1897 when an amended charter was granted under the Banking Reorganization law of that year. In recommending this, the Secretary of Finance reported to the Mexican Congress that

> the Government was in full sympathy with the plan to strengthen an establishment . . . which on every ground deserved to be utilized as an element of equilibrium in the powerful influence destined to be exercised on the market by the great banks of issue ramified throughout the Republic.[1]

The experience in Mexico seems to have suggested the wisdom of operating the London office of the bank as a holding company, with locally incorporated subsidiaries abroad, for from 1889 the foreign branches were gradually turned into local banks in which a considerable shareholding was retained. Substantial holdings were also purchased in other local banks throughout Latin America. The London Bank's profits thus came firstly from acting as the channel for the European business of its affiliated banks, and secondly from the profits on selling its bank holdings, after a rise in the shares had been brought about by its own beneficial control. In this way, its dividends rose from the average of 5 per cent of the 1880's to an average of 10 per cent before the War. At the time of its absorption by the Anglo-South American Bank in 1912, the London Bank had become virtually an investment trust, with holdings in the Banco de Londres y Mejico, the Banco del Peru y Londres, the Banco de la Provincia de Buenos Aires, the Banco de la Habana Cuba, the Banco Agricola Comercial San Salvador, the Banco de la Nación Boliviana, and the Banco Español de Chile.

[1] Conant, *op. cit.*, App. A.

The Bank of Tarapacá and London was the only English bank founded specifically for Chile, and the first foreign bank of any kind to be established in the country.[1] From its inception, it was connected with the nitrate business (of which Tarapacá was the centre), many of the chief nitrate shippers being shareholders, and allied concerns, such as the nitrate railways, being also strongly represented. With a capital of £200,000, the bank commenced business in Chile in June, 1889, at a time when Colonel North, the Chilian railway magnate, promoter of the bank, and the largest shareholder in it, was dazzling London speculators with the prospects of his nitrate properties.

But directly after a promising start, the bank was plunged into the political disturbances created by the struggle between President Balmaceda and the Congressional Party,[2] and the subsequent revolt of 1891, during which Tarapacá and the nitrate districts fell early to the insurgents. The first few dividends of 5 per cent hardly bore out the optimism of the promoters. Branches spread slowly; not till 1895 did the bank go beyond the nitrate districts, and not till 1900 did it seek business outside Chile. In this year it absorbed (on rather favourable terms) the Anglo-Argentine Bank, which had suffered capital reductions on account of severe losses through bad debts and the local depreciated paper issues, and this began a series of strategic amalgamations which eventually secured for the bank a position of first-rate importance in the whole of South America. The amalgamation was much approved in London [3] where it was realized that the spreading of risks geographically would be of great advantage to both banks, as well as securing great economies in the London administration. The first point applied particularly to the Bank of Tarapacá, dependent as it was upon the trade in practically one commodity only for its profits, and exposed to the risks of severe and

[1] Subercaseaux, *Monetary and Banking Policy of Chile*, Oxford, 1932, p. 129.

[2] This struggle also affected the great British bank in the Argentine—the London and River Plate Bank—which was unsuccessfully sued by the Republic of Chile in 1894 for the repossession of silver deposited as security for an advance to Balmaceda.

[3] *Bankers' Magazine*, 1901, I, p. 101; *Statist*, 8 Dec., 1900.

unpredictable fluctuations in the Chilian peso.[1] It is clear, in view of subsequent events, that the amalgamation principle was a wise one.

Besides these five large and important British banks in South America, there were sundry smaller ones, many of which failed to get a secure footing. The London Venezuelan Bank, for instance, formed in 1864 with a capital of £500,000 under the chairmanship of A. A. Hankey, bought the business of the Bank of Caracas, with the idea of profiting from the growing export trade in Venezuelan cotton during the American Civil War. It was liquidated in 1870. The success of the older banks in established fields stimulated competition from small new institutions such as the Mercantile Bank of the River Plate,[2] a reconstitution of Wanklyn & Co., the important Argentine financial house occasionally entrusted with the flotation of Argentine loans in Europe; the Anglo-Argentine Bank, formed in 1899 under the chairmanship of Sampson Lloyd; and the ill-fated English Bank of the River Plate, which commenced at Buenos Aires in November, 1881, with an experienced manager and an imposing Board of Directors, including Carr Glyn, but was obliged to suspend in July, 1891, after ten years' effort to obtain a secure footing. The moratorium and lock-up of funds in South America consequent upon the crisis of 1890 found the bank in a weak position, and a run upon it forced suspension.[3] A series of unpleasant surprises awaited the shareholders. It was found that local creditors in the Argentine and Uruguay had preferential rights, that the bank's limited liability privilege did not apply to its notes in South America, and that the managing director had

[1] Five years after the bank started the Chilian rate had dropped to about half what it was when the bank's capital was remitted. The directors aroused much criticism by leaving intact their reserve of £30,000 and continuing to pay dividends, in face of such a depreciation. Cf. *Economist*, 27 Oct., 1894.

[2] Established 1872. Failed 1876, in the midst of a local depression.—*The Times*, 30 June, 1876.

[3] A moratorium invariably strikes at foreign banks with particular severity; their local debtors do not pay, but their creditors everywhere else naturally clamour for payment. There is the suggestion in this case that the object of the moratorium was chiefly to stop actions by the National Bank against members of the Government who had plundered it. Cf. *Economist*, 25 July, 1891.

misappropriated the funds. The reserve liability on the bank's shares had to be called up. In spite of great efforts to restart it as the New English Bank of the River Plate, it failed to inspire confidence, and suspended finally in 1894.

It is a remarkable fact that this was the only British bank failure in South America directly attributable to the Baring crisis. The crisis itself—one of the most significant yet least spectacular of the nineteenth century—originated primarily in extravagant boom conditions in the Argentine, which were nourished by a ramshackle political system shot through and through with corruption. The Argentine Republic, then a loosely joined Confederation of fourteen States, each loath to surrender political independence and each jealous of the Federal authority, was the scene of bitter antagonisms between the Buenos Aires factions and the "Provincials" until the Civil War of 1880. Under the strong Roca administration which followed, a period of comparative freedom from political disturbances laid the foundation for the rapid economic development of the country from 1880 to 1885. This was continued at an accelerated rate under President Celman, the successor and at first the agent of Roca, and signs of the approaching trials did not in fact become plain until Celman broke off connections with his predecessor in 1887, and began to put into practice his own notions of good government. Bribery and corruption now characterized the administration to such an extent that it became impossible to do any business at all with the public departments except for a consideration. Public resources were squandered on a host of greedy, incompetent, and unprincipled political followers; and foreign loans were floated in increasing amounts for all kinds of doubtful projects, both by the Federal Government and the Provinces, not slow to follow the example. The National Mortgage Banks became the mere creatures of a spendthrift Government, and willing lenders to upstart politicians on the security of real property brought in at fantastic valuations. The local commercial banks were made the more or less unwilling victims of this wild regime and the Board of the Banco Nacional in particular was soon filled with

Celman's nominées. As far as possible the old-established foreign banks stood aside, prepared for the break which was confidently predicted in responsible foreign circles many months before it came.

The revolt of 1890 which displaced Celman and the Cordoba clique, did not help the financial situation. The depreciation of the exchange and the fall in Argentine securities had gone too far, and the prospect of further foreign credits was not significantly improved. And when Barings failed on November 15, 1890, the position seemed hopeless indeed; the last possible source of foreign credit had now dried up, and the further large British loans then being sought had to be completely given up. In London, the Bank of England took the unprecedented and historic step of inviting the principal joint stock banks and banking firms[1] to subscribe to a guarantee fund on behalf of Barings, whose liabilities on 14 November amounted to £20,963,300—fifteen millions on acceptances, four millions on private deposits, and two millions on Russian Government deposits.[2] At the same time, to avoid pressure on the exchanges and the gold reserves due to heavy sales of Baring acceptances, the bank arranged for the loan of £2 millions from the Bank of France,[3] and of £1½ million

[1] The full list of guarantors was a long one, never published in detail, though individual banks sometimes acknowledged their liability under it, e.g. the directors of the Bank of Australasia, the Chartered Bank of India, the National Bank of India, and the London and Brazilian admitted pledging their banks for £200,000 each.

[2] The terms of the guarantee were simple but comprehensive. "In consideration of advances which the Bank of England have agreed to make to Messrs. Baring Bros. & Co. to enable them to discharge at maturity their liabilities existing on the night of 15th of November, 1890," the subscribers promised "to make good to the Bank of England any loss which may appear whenever the Bank of England shall determine that the final liquidation of the liabilities of Messrs. Baring Bros. & Co. has been completed." All were to contribute rateably if called upon, and the liability was to cease in three years. The response was immediate, and by the afternoon of the 18th November, the fund had reached over £12 millions.

[3] Thus reviving in an acute form the old question of the sufficiency of the bank's gold reserves. "All agree that the richest capital in the world ought to be in a position to avoid in future having to dispatch a trusty messenger to the Bank of France at a moment's notice to communicate to them the grave fact that the Bank of England must have so much gold at once at any cost, which is what took place."—*The Times*, 24 Nov., 1890.

from Russia, and it did its best to discourage the discount of the acceptances by a rate which at one time on 19 November, reached 8 per cent, when the discount and loan business outside the bank was almost completely at a standstill.

In fact, the South American security markets continued depressed for several years afterwards, and revelations of scandalous irregularities committed in the Argentine before the crisis were continually being made, especially after the failure in March, 1891, of the Banco de la Nacion and the Banco de la Provincia. Moreover, in March, 1892, another important Anglo-South American firm—Muriettas—was liquidated, hardly a year after the English Bank of the River Plate, which had been forced to suspend in the previous July. So that although the Bank of England went steadily on with the Baring liquidation, and indeed managed to save much of the firm's acceptance business from the wreck,[1] the guarantors had to be induced to undertake a fourth of their liability for a further year, and the task was not finally completed until November, 1894. During the liquidation period, the bank not unnaturally came in for a good deal of criticism for "spreading illiquidity" over the banking system, and for associating itself with objectionable syndicate operations in South American securities.[2] The comparatively slight losses of the British commercial banks in the Argentine,[3] apart from the ill-fated English Bank, are thus rather remarkable in face of all these disturbances, though their specialization on short-term business would naturally carry a certain immunity from losses on exchange and on long-term investments. Their remoteness from local politics, though it left them defenceless against attacks from impoverished speculators and needy Finance Ministers of the post-

[1] This was the reason for the reconstruction of the firm under the title of Baring Bros. & Co., Ltd., with a capital of £1 million, subscribed by private friends and members of the family (particularly T. C. Baring, who had retired from the old firm in 1888, and who now came forward to subscribe £200,000 of its capital and undertake unlimited liability for its debts).

[2] See especially the *Economist*, 24 Nov., 1894. The *Economist* thought the Barings much too favourably treated.

[3] Table 15.

Celman regime,[1] was of the greatest use in building up an already worthy reputation. The reconstruction of the two large local banks, the reform of the Argentine monetary system, and eventual recovery from the depression, provided the framework in which this reputation could be put to solid advantage.

With the passage of time, political and economic life in the Latin-American states began to show somewhat more stability than when the British banks were first established. Except in the important business centres, however, the economic development of the whole continent could still be justly described so late as 1914 as decidedly backward. The banks in consequence still had to undertake the very mixed business typical of a pioneer community, and to be more venturesome in practice than they would have been at home.[2] Still too far away to refer back for instructions at every turn, their business methods were considerably freer than in Europe. Technical legal flaws in documents of title were not so keenly scrutinized; legal remedies in the recovery of debts were not so exclusively relied upon. Nowhere in South America had there been much effort to frame a really comprehensive banking law, or to institute a regular system of bank inspection. Monthly returns of business had to be furnished in some states, and in most the foreign banks had to appoint a resident official fully empowered to represent them to the Government and the Courts; but upon registering their charters, and perhaps paying a heavy tax for a trading licence, the banks could proceed to business in accordance with their own statutes, free of restrictions.

As a general rule, this business was mainly the finance

[1] E.g. in relation to a suggested tax on private bank deposits, the Finance Minister said that these deposits " are a fictitious accumulation of national wealth in selfish hands which do not devote it to stimulating production. The open hostility of the private banks is a vice born in their charters and we must do away with it at any cost. These banks have restricted discounts and have deprived the country of the benefits of an enormous circulation of legal tender." (!)—*Buenos Aires Standard*, 24 Dec., 1890.

[2] In 1915, two foreign banks on the west coast were reported part owners of gold mines.—Lough, *Banking Opportunities in South America*, U.S. Department of Commerce Special Agents Series, No. 106, 1915, p. 105.

of foreign and domestic trade, rather than the flotation of large long-term capital issues. From exchange business the banks made their chief profits, the fluctuations being large, except in the Argentine and Uruguay, and the margins between buying and selling rates wide. Acceptance business was next in importance. Dealings in securities for clients were extensive, but the issues of Government and railway securities for South America were usually made by the great private banking firms of London and Paris. In 1887, the Discontogesellschaft organized the Brasilianische Bank für Deutschland to float certain Brazilian loans, and the Deutsche Überseeische Bank also brought out some local issues, but these transactions were exceptional, and the other foreign banks did not follow suit.

The general public attitude was one of welcome, except possibly in Chile and Bolivia, and the business atmosphere free and keenly competitive. The big Government banks, where they existed, exercised no supervision over the commercial banks, and would not, in any case, have been appropriate institutions to do so, since they were in active competition for commercial business themselves. There was thus little or no co-operation or help between one bank and another in times of difficulty.[1] Business was still liable to sudden and violent fluctuations, and exchange risks continued to be serious in most parts of the continent. The maintenance of high interest rates reflected the chronic scarcity of capital in South America, and also helped to retain for the foreign banks the important position they had won in the banking systems of the several States.[2] The remarkable uniformity of these rates throughout the business centres of the continent was in part due to the widespread branch systems of the foreign banks, who were now hedging their risks in one area by expanding into others.[3]

[1] In 1914, for the first time, there was some rediscounting of the paper held by commercial banks, on the part of the Bank of the Argentine Nation, and the Bank of the Republic of Uruguay. But this did not go very far, because the other banks objected to placing information "as to their relations with customers, in the hands of the Government institutions." —Lough, *op. cit.*, p. 101.

[2] See Table 18.

[3] See Table 17.

The British banking enterprises in South America, more successful than any other group of British investments in the country,[1] were reaping the full advantages of the extended trade relations of the United Kingdom with the States, as well as a good deal of the advantage of Latin-American trade relations with other countries. As banking agents for the enormous investment of British capital in this region, they also occupied a position of great profit. Estimated at over £1,000,000,000 in 1913[2] (of which £18 millions was banking capital), these investments were chiefly in the railways of the Argentine, Brazil, Uruguay, and Chile, and in the tramway, light and power companies, and general public utility undertakings, all over the continent. The chief British railways, such as the Central Argentine, the B.A. and Pacific, the B.A. and Western, the Cordoba Central, the B.A. and Great Southern, the Antofagasta and Bolivia, were well known on the London Stock Exchange, were paying good dividends, and were the biggest single nucleus of business of the British banks.

At the same time, the indigenous banks were in almost all cases growing very much stronger and much more important. The Banco de la Nacion Argentina, founded in 1891 on the ruins of the two official banks—the old National Bank and the Banco de la Provincia—had become in 1914 the largest and greatest of the Argentine banks, with three times the deposits of the London and River Plate, its nearest competitor. It was owned and guaranteed by the State, and responsible for the financial stability of the country. It did a very large commercial business (though its lending rates ruled rather higher than those of the commercial banks), and through its large holdings of foreign balances, it was a dominant factor in the exchange market, now become much less subject to fluctuations since the Gold Conversion Law of 1899.

Similar relative progress had been made by the Banco de Brasil and the Banco de Chile. The first, after several

[1] "British Banking Interests in South America," *South American Journal*, 6 Jan., 1912.
[2] Cf. *South American Journal*, 8 Jan., 1913.

reorganizations and reconstructions dating from 1809, finally received a definitive and workable constitution in 1905, and by 1914 had one-fifth of the total bank deposits of the country in its hands. The Banco de Chile was the result of an amalgamation in 1893 of three previously existing banks, and although privately owned, was in close relationship to the Government and regarded as a Government institution. In Peru, the Banco del Peru y Londres (originally an offshoot of the London Bank of Mexico and South America) was unquestionably the leading bank in 1914, and one-third of its capital was now locally owned.[1]

But the most serious development from the point of view of the British banks was undoubtedly the growing strength of competition from other European overseas banks throughout the important business centres in South America. Five German overseas banks maintained 53 branches in South America in 1914, in place of 3 banks with only 17 branches at the beginning of the century. United States banks had not yet appeared except in Central America, and then chiefly in connection with the construction of the Panama Canal. But three important French banks had started—the Banque Française pour le Brésil, the Banque Argentine et Française, and the Banque Française et Italienne ; and the overseas banks of other European nations, such as the Banco Holandes de la America del Sud, the Banque Brésilienne Italo-Belge, and the Banco Suizo-Sud-Americano,[2] had also arrived on the scene. The new competition thus introduced was very strong indeed.

So far, the British banks had concentrated most of their attention on British business connections which already

[1] The remainder was owned by Frenchmen. Few foreign banks at all had been attracted to Peru by this time, due to its remoteness (before the building of the Panama Canal), and the poverty and confusion of the country after the Pacific War, 1879–83.

[2] Not all the South American banks with foreign names originate from abroad. The names sometimes refer to connections with local colonies of immigrant foreigners, who might own and control the banks, as well as leave deposits with them. The large Italian, Spanish, English, French and German immigrant populations in Buenos Aires, and the great number of Germans and Italians in Brazil, thus explain many of the foreign names of the local banks. The Banco Espanol del Rio de la Plata, the Banco Espanol de Chile, and the Banco Italiano of Lima, are all primarily domestic banks.

amidst accusations that they had sold quantities of the bank shares short and then arranged a further issue to force down the price.[1] By amalgamation with the London and Colonial Bank, with branches in the West Indies and Canada, the British American Bank plunged further into misfortune, as the chief assets of the Colonial Bank were found afterwards to consist of uncovered advances to the Chairman, now insolvent, and acceptances of his firm. Another similar trumpery concern, the English and American Bank, founded in 1866 to engage in exchange business, was wound up in the following year, suspicions having been aroused through the connections of one of its directors with Overend Gurney. The more solid projects at that time had to do with a part of the continent outside the United States altogether, namely, California, not yet a member State of the Union.

In California, the period of the 'sixties was one of golden prosperity. The wild speculative days of the frontier period had now given place to more sober times of greater commercial stability. While business in the Eastern States suffered from the greenback inflation, California maintained gold payments and refused to accept the Federal notes except at a heavy discount. Moreover, since the Civil War had cut her off from the manufacturing States in the East and had forced her to supply her own industrial needs, local industries were growing fast, fed by a rapidly expanding population, which showed a 50 per cent increase in the decade 1860–70. A further attraction from the technical point of view was the entire absence of banking legislation, except as regards savings banks.

In view of this and of the contemporary speculative fever in England for joint stock banks, it is not surprising to find five British banks operating in California in the 'sixties, dealing in gold and silver bullion, discounting bills, issuing letters of credit, advancing on merchandise and securities, and selling sterling and other exchange. Two, the Bank of

[1] Cf. *Bankers' Magazine*, 1864, p. 362. "This," wrote *The Times*, sagely, "might have been supposed to have furnished sufficient evidence that there were elements in the management which could hardly be brought into harmony with any sound or generally recognized system of safe banking."—1 June, 1864.

British North America and the Bank of British Columbia, were English banks controlled from London, but with the main part of their business in Canada. One, the Commercial Bank of India, was founded originally in Bombay, and was swept away in the crisis of 1866. The fourth, the British and Californian Banking Company, was floated in 1864 by the London Financial Association,[1] with original directors representing the London and County Bank, the National Provincial, the City Bank, the London and South American, and the Agra Bank of the East. In San Francisco, the bank bought an old-established local business[2] and appointed a manager from the famous Wells Fargo Bank.[3] Although the original capital was, at £150,000, rather too small for the business, the bank might have prospered, in view of its connections, had not its relations with the Agra Bank, which failed in the Overend Gurney crisis, altogether doomed it in 1866, and made further calls on the shareholders impossible. Liquidation took place amidst some regrets.

The fifth was the London and San Francisco Bank, started with a paid up capital of £300,000, and owned exclusively by ten English and ten German banking companies and by one Manila house,[4] under an agreement by which the promoters undertook severally not to sell their interest in the bank or add to it without the unanimous consent of the others. The bank is said to have been a "powerful influence in the development of the agriculture and industries of the Great North West through the activities of its Northern agencies,"[5] at Portland, Tacoma and Seattle; but it was most conservatively managed, and in competition with the local banks suffered somewhat from having to

[1] Which, in conformity with the spirit of the times, got enormous promotion fees out of it, and was suspected of having rigged the market for the sake of the large block of shares allotted to it.

[2] In preference to opening a new branch. Competition was reported to be severe "and the people were not particularly remarkable for their attachment to British institutions."—Annual Report, 1866.

[3] At £1,600 a year for cheapness. An English manager would have cost £2,000 according to statements then made. This was another symptom of the banking mania.

[4] The principal shareholders were Bischoffsheim and Goldschmidt, Fruhling and Goschen, Huth, Morgan, Rodewald, Stern Bros., the International Financial Society, and the Bank of Saxe Meiningen.

[5] Cross, *Financing an Empire*, San Francisco, 1927, Vol. I, pp. 257–8.

refer all large deals to London for approval. After years of generally successful operation, it was absorbed by the Bank of California in 1905, at a profit to the English shareholders of nearly 40 per cent on the market value of the shares.

The other two British banks in California, of the post-Overend Gurney period, played a substantial and honourable part in the financial history of the State. One was the Anglo-Californian Bank, founded in 1873 by Seligmans, the American merchant bankers established before the Civil War, and Sassoons, of London and Bombay. The object was to buy the gold shipment business of Seligman's in San Francisco, and on this basis, the bank, which had a succession of able managers commencing with a former Governor of California, proved very successful, and became one of the largest and strongest in San Francisco. The other was the London, Paris and American Bank, which started as an agency of Lazard Frères of Paris, doing a silk importing business and dealing in exchange. Its reorganization in 1884 under the more pretentious name, with an authorized capital of £400,000, opened the way to a successful career during which the bank became the largest dealer in the international exchange market of the Pacific coast.

After the Banking Act of 1909 was passed, however, foreign banks were not allowed to maintain branches in California. A group headed by H. Fleishacker, a personage in the local paper making and electric power industries, now secured the control of the London-Paris stock in non-American hands and nationalized the bank under the name of the London-Paris National Bank of San Francisco. The same group also secured control of the Anglo-Californian, and merged the two banks into the Anglo and London-Paris National Bank, at present one of the most important institutions on the Pacific coast, its name now the only evidence of the successful British enterprise which originated the constituent banks, and of the close British connections which sustained them for many years afterwards.

CHAPTER VI

THE GREAT EXCHANGE BANKS AND THE FAR EASTERN TRADE

FOR a long time, British banking enterprise overseas left India untouched and failed completely to penetrate China. When the nineteenth century opened, the trading monopoly of the East India Company straddled all the markets of the East, and in China was reinforced by the traditional hostility of the Chinese to any foreign incursion whatever. Warned by the striking example of the rapid economic and political penetration of India by the Company, the Chinese Government at first permitted foreign trade to be carried on only at Canton and Macao, appointing thirteen Hong merchants at these places with the exclusive privilege of undertaking it. And for a long time the existence of this tight monopoly held by the Company and the Hong merchants effectively prevented any competitive interference from outside, in either financial or trading operations.

But the impact of economic change in Europe, which beat steadily upon the closed doors of a self-sufficing China from the time of the Industrial Revolution, could not long be resisted. As a result of the Treaty of Nanking of 1842, five " Treaty Ports " were opened to foreign trade, and the monopoly of the Hong merchants was brought to an end. By this time, the trading monopoly of the East India Company had also been broken, in India in 1813, and in China in 1833 ; and the position of the great Agency Houses in the East had been severely shaken by the rapid growth of competition from small new firms, and the catastrophic failures of 1830–4, when long-established and opulent houses like Palmers, Alexanders, Colvin & Co., and Crutten-

den & Co., failed for millions each through trying unsuccessfully to combine a mercantile and a banking business. Nevertheless, for years afterwards, the Agency Houses continued to do a large part of the exchange business between Europe and Asia, and, until the 'fifties, attempts to establish special English banks for the East, in face of strongly entrenched traditional, if not legal monopolies, were complete failures. One such abortive project, on a grand scale, was the "Bank of India" of 1836, which proposed to do exchange, issue and deposit business at branches all over India and at Canton, on a capital of £5 millions.[1] Another was the "Bank of Asia" of 1840, "for carrying on the business of banking within Your Majesty's territories in India and elsewhere in Asia,"[2] with a capital of £2 millions. In the 'forties, however, small Anglo-Indian joint stock banks like the Agra Bank and the North-Western Bank of India, began to spring up in India itself, and it was these which first established British banking connections with China, the famous Oriental Banking Corporation following them soon after with a Royal Charter wrung at length from the Home Government against the determined opposition of the East India Company.[3]

The exchange business in sterling bills thus came to be shared between the Company, the Agency Houses, and the new banks. The Company was a very large dealer, on account of its £2 millions to £3 millions of home charges, and it used to get exchange by advancing (against a bill of lading) about two-thirds of the value of local produce exported, or by buying locally drawn tea bills or by buying opium bills received in India from China. At the Company's Canton agency, where the business was continued until 1837, opium bills were bought directly, the custom being

[1] See *The Imperial Banks*, pp. 89–96, for the full story of this bank.
[2] Memorial of the promoters, Public Record Office, T.1, 3471.
[3] Cf. my article on "The Entry of the Exchange Banks into India," *Bankers' Magazine*, 1930. No attempt is made here to refer individually to the history of the several Anglo-Indian exchange banks whose main interests were in India, but whose branches usually extended to some of the ports of China. Some account of these will be found in *The Imperial Banks*, Chap. III. The present section is specially concerned with the British banks whose main business sphere was in China.

to advance only 25 per cent in local dollars, and give bills on the Company in Calcutta for the balance.[1] This really began the extensive business in circuitous exchange which all the banks did between China, India and London in subsequent years, and which necessitated a China agency.

The new banks found it comparatively easy to get a grip on this business. The Company's dominant position in the Eastern exchange markets occasioned great bitterness, and there were many complaints of infringement of the charter of 1834, which expressly forbade commercial operations. Moreover, the market rates quoted for buying and selling London bills normally showed large differences—of 6 per cent in India and 3 to 4 per cent in China [2]—which irritated the mercantile community. Although the large and old-established Indian houses had usually enough capital to be independent of banks normally, and could buy and sell exchange amongst themselves, and draw on London under their own credits with the home banks, the small, newer firms found the new facilities welcome. Nevertheless, the chief extension of scope for the new banks came after 1852, when the Company ceased the practice of advancing in India to meet the home charges, and instead began to rely on selling drafts on India in London. The next year the Chartered Bank of Asia and the Chartered Bank of India, Australia, and China were incorporated, and four years later, the Chartered Mercantile Bank of India, London and China (still in existence as the Mercantile Bank of India, Ltd.) followed. The fast-developing trade of the East with Europe now tempted other foreign banks, and the Comptoir d'Escompte of Paris opened soon after in Shanghai in order to facilitate direct trade with France and free Frenchmen from the necessity of buying their silk in London, and paying for it, moreover, in London bills. But the chief new-comers to the China business were at first almost all Anglo-Indian banks already working a large exchange business in India,

[1] " Banking in India and China," J. W. MacLellan, *Bankers' Magazine*, 1893, I, p. 50.
[2] *Ibid.*, p. 214.

the reason for this being the considerable volume of trade between India and China, which made it impossible for the banks to cover their Indian drawings on London directly. The practice was for the complementary China branch to sell drafts on the Indian office to, say, Chinese opium importers, and to invest the proceeds in sterling bills, which could then be mailed to London and employed as cover for the sterling drawings of the Indian offices.

Of the original British banks in China, the Oriental Banking Corporation was unquestionably the greatest. Its claim to historical distinction rests largely upon the fact that it was the first British exchange bank to be chartered for India and the East and thus the first to overcome (though by accident [1]) the long-maintained opposition of the East India Company to such projects. By purchasing the derelict business of the Bank of Ceylon in 1847 after the coffee planting crisis, the Oriental Bank obtained its Royal Charter, subsequently extended to comprise the whole of the East, and bought its way into a practical monopoly of the Ceylon business for many years. Even from its inception, however, it drew great attention at the time by its large profits, its average annual dividend before the crisis of 1866 being 13 per cent. It attracted the most substantial and influential London bankers to its Board, and seems to have established about itself an atmosphere of vast opulence and unlimited prestige partly borrowed from the East India Company, with which several of its directors were connected. Founded and well established before the Mutiny, it suffered little from the disturbances then. In the crash of 1866, it escaped with remarkably slight damage; it was not at all involved in the failures of the Asiatic Bank and the Commercial Bank of India, it had no connection, directly or indirectly, with Overend Gurney, and a loan of £4,000 was its sole commitment in the Premchund Roychund scandal. From the earliest days its expansion was very rapid, and its ramifications became literally world-wide. Besides the main body of its Oriental branches, important offices were opened in Australia, and two experimental branches were

[1] Cf. note 3, p. 161.

operated for some years even in New Zealand.[1] In the early 'eighties the bank's most important branches were at Bombay, Calcutta, Colombo, Cape Town, Durban, Foochow, Hiogo (Kobe), Hongkong, Kandy, Madras, Mauritius, Melbourne, Port Elizabeth, Sydney, Point de Galle, Shanghai, Singapore, and Yokohama—probably a more comprehensive branch system than any commercial bank has ever operated, before or since.

After 1860, the attractions for European banks in China increased. The devastation caused by the Taiping rebels in the province of Kiangsu drove many wealthy refugees into Shanghai, which became the important centre catering for the large needs of the refugees, as well as an emporium for war supplies. The Yangtze ports as far as Hankow were also thrown open at this time, and almost the whole of the new trade with Japan became centred in Shanghai, which for several years enjoyed phenomenal prosperity. Stimulus was also being applied from India, where, from 1862 onwards, small local European banks began to appear in large numbers in Bombay, in order to finance the boom in the Indian cotton export trade due to the American Civil War. The boom began to be felt throughout all the Eastern ports, owing to Bombay's paramount commercial position in the East, and it most unfortunately coincided with the joint stock speculative mania in England at this time, which poured capital into all sorts of ill-conceived Anglo-Eastern concerns. Although the China ports were saved from the worst excesses of the frenzied cotton boom in Bombay, they did not escape the attentions of the new Anglo-Eastern banks now being hurriedly incorporated in England. These looked to their China branches as an important future source of profit, and were on that account constituted so as to comprise the whole of the East in their sphere of operations. One of the best known of these banks was the

[1] They were soon closed, " the business being more suitable for an institution whose controlling power is nearer the field of action " (Directors' Report, 1862). But this might have been applied to several of the bank's branches which had no organic connection with its main business area. This indiscriminate expansionist policy was doubtless one important cause of the marked loss of status which the bank suffered in the few years before its eventual failure in 1884.

Asiatic Banking Corporation, formed by some directors of the notorious Back Bay Reclamation Company of Bombay. This bank started with a deposit of £1 million from the Bombay Government in respect of the profit made by the Government on selling its Back Bay shares (at Rs. 26,340 for each share, Rs. 5,000 paid up !) and failed with an unsecured overdraft of Rs. 2,000,000 at the Bank of Bombay, with which it was heavily involved in the Premchund Roychund speculations.[1] Of the local banks the chief was the National Bank of India, almost the only present survivor of the hot-house creations of those days. Twenty-two of the less fortunate of such banks were mentioned as still existing early in 1866, their winding-up being prevented only by "the repugnance of the directors and managers to face their shareholders with an exact account of their position."[2] The shares of half of these then stood at an average discount of 30 per cent; the shares of the other half were totally unsaleable. By the time the news of the Overend Gurney crash reached India, the great Bank of Bombay was in liquidation, and a severe depression was spreading throughout the East.

It was in this depression that what is now the greatest British bank in China, if not the greatest single British commercial interest in the whole of the Far East, had to struggle for position and profits in the first few years of its existence. To the uninitiated it must have seemed at the time that the Hongkong and Shanghai Banking Corporation was merely another of the mushroom banks of the boom period; few could have foreseen then the paramount position which the bank now occupies in British financial affairs in the Far East. Its inconspicuous origin and its rapid rise to the foremost place amongst the foreign banks of its own and all other nationalities make a striking record.

The Hongkong Bank (to use the short title) originated, according to Sir Thomas Sutherland,[3] as "the result of an after-dinner conversation amongst a few prominent Eastern

[1] Cf. the Report of the Bank of Bombay Commission (B.P.P., 1868–9, Vol. XV), for detailed facts about the failure of the Asiatic Bank.

[2] *The Times*, 12 Feb., 1866.

[3] *Bankers' Magazine*, 1913, II, p. 734.

merchants and traders." One could wish for more such dinners and such conversations. Started as a small local bank in Hongkong, in the midst of the speculative mania for founding Eastern banks, its prospectus appeared at a time when the end of the cotton boom in Bombay was in sight, and when the wealthy Chinese refugees were leaving Shanghai to return to their own districts now cleared by General Gordon. Inferior short-staple cotton, exported increasingly from Shanghai, Hongkong, and Ningpo, was rapidly becoming unsaleable on a falling market, and when the Indian boom burst with ruinous results all over the East, the bank was barely twelve months old. A few months later the Overend Gurney crash re-echoed across the financial world, bringing down an alarming proportion of the Eastern banks, amongst them, most importantly, Agra & Masterman's Bank, then the foremost British financial concern[1] in the East. The fact that the new bank was able to stand the strain of these events is testimony to the care with which it was founded and the confidence of its early supporters. To the far-sighted few, it must have been clear, even then, that a well-managed and solidly supported bank for the East could not fail to benefit in the long run from the unusual mortality of 1865–6 amongst its competitors. It was certainly very heavy. At the beginning of 1866, there were established in Hongkong eleven foreign banks —the Hongkong Bank, the Chartered of India, the Oriental Bank, the Chartered Mercantile, the Comptoir d'Escompte, the Agra, the Commercial of India, the Asiatic, the Bank of Hindustan, the Bank of India, and the Central Bank of Western India. During the ensuing twelve months the last six of these ceased to exist. To some extent it is true to say that the business of the Hongkong Bank was built on their ruins.

The bank was founded in 1864, began business simultaneously in Hongkong and Shanghai on 3 April, 1865, and was incorporated by Ordinance No. 5 of the Hongkong Legislative Council in 1866. It seems to have been thought of partly as a move by the Hongkong mercantile community

[1] See Table 4.

The bank need not have applied for incorporation at all. In fact, it had appointed its first (French) manager, arranged its London agency with the London and County Bank,[1] and carried on business for a year unincorporated, as there were no legal restrictions whatever in the Colony on the establishment of banks or the issue of notes. However, as the Colonial Governor explained to the home authorities [2] in seeking their approval, the shareholders were anxious to be declared a corporate body, in order that the bank's notes might be recognized by the local Treasury. The Governor himself favoured the bank, noting that all the shares had been eagerly taken up and the project warmly supported by the business community in Hongkong and throughout China and Japan also.

At home, the Treasury was favourable [3] to the incorporation of the company by a Colonial Ordinance permitting banking business in China and Japan only. The first formal transgression of the Banking Regulations might be permitted "on condition that the business of the company shall be governed by the amount of capital actually paid up," [4] but there ought to be no relaxation of the double liability clause. When the Governor notified that he was accepting the notes of the Hongkong Bank just like those of any other banking corporation, the Treasury officials emphasized their determination on this second point by insisting [5] that the new concern must incorporate under the Colonial Banking Regulations and not under the new Limited Companies Act of 1862, or it would forfeit the recognition of its notes.

On the suggestion of the Colonial Office, an Ordinance was now prepared on the basis of the charter of the now defunct Asia Banking Corporation. But this was found to confer powers not within the competence of the Hongkong author-

[1] The London and Westminster, known to be averse to foreign banking commitments (cf. the evidence of its director, before the Select Committee on Banks of Issue of 1875), refused to grant the necessary facilities, on being approached.

[2] Letter to C.O., 29 Dec., 1864, C.O. 129/101.

[3] Letter of 1 March, 1865, C.O. 403/14.

[4] Letter from Treasury to C.O., 19 April, 1865, C.O. 129/108.

[5] Letter to C.O., 20 April, 1866, C.O. 129/118.

ities to grant—the old charter having been conceded by the Imperial Government. The Hongkong Government therefore prepared an Ordinance (No. 5 of 1866) of its own and this was passed on 14 August, 1866.[1] It incorporated the bank with a capital of $5 millions, all of this to be subscribed within two years and paid up in four years. The bank could open branches in London, India, Penang, Singapore, China and Japan, with Treasury consent, for Exchange, Deposit, Issue and Remittance business; but agencies (without a note issue) at other places without such consent. The shareholders had double liability for the debts of the concern, but unlimited liability for its notes. The provisions in other respects follow the Regulations.

The Governor, in sending this forward for confirmation,[2] stated that the bank had met with great success in its first year although unincorporated. The extra safeguard for the noteholders had been inserted for the protection of "the poorer class of the public." There had apparently been several recent instances of the local branch banks shipping to India and elsewhere all their specie and bullion, on learning of the insolvency of their Head Offices in England —thus leaving the local creditors completely in the lurch. It was clearly desirable to stop this practice, for the benefit of noteholders at least.

In the Legislative Council the Governor's Ordinance had met with very little opposition, except that the resident representative of Jardine, Matheson & Co. objected [3] to the absence of any limit on the bank's power to do exchange operations, presumably because this powerful house, although it worked in the closest association with the bank in later years, did not take part in its formation and felt its own profits from the exchange business menaced at that time. In London, however, matters went less smoothly.

The new Ordinance still did not suit the Home Government, which objected to the inclusion of India in the sphere of operations (the Hongkong Government having no power

[1] *Hongkong Government Gazette*, 18 Aug., 1866.
[2] Letter to C.O., 24 Aug., 1866, C.O. 129/114.
[3] *Hongkong Mercury*, 26 July, 1866.

to permit business in India), and noted that there was no provision obliging the bank to redeem branch notes at the Head Office.[1] But the bank, as the Governor pointed out,[2] had now been in business for eighteen months, and it would be "inconvenient and somewhat damaging to the bank to expose it to any misconceptions which might arise from a rumoured disallowance of the Ordinance."[3] The bank directors showed themselves "most willing to adhere to the spirit of the suggestions made"[4] and proposed with the Governor that these could be met by inserting the necessary provisions in the Deed of Settlement. It was not of course intended to open branches in India without the consent of the Indian Government, and as to the notes question, the bank had no objection to making its branch notes payable also at the Head Office in Hongkong currency, "at the exchange rate ruling at the time of presentation for payment." On some further additions to the Deed of Settlement to make it conform with other minor clauses in the Regulations,[5] the home authorities expressed themselves satisfied with the Ordinance, which was finally confirmed and became the original charter of the bank.

Business was not very bright at the start. The existing branch banks with their main business in India seriously prejudiced, if not ruined, by the financial crisis there, were a standing warning against reckless banking. The Taiping rebellion had unsettled the whole China trade. The bank suffered serious losses from exchange fluctuations during the Franco-German War, and, like many other Eastern houses at that time, had somewhat costly experiences with its first compradors. A rival concern, another "Bank of China,"

[1] Letter from C.O. to Governor of Hongkong, 24 Nov., 1866, C.O. 403/15.

[2] Letter to C.O., 31 Jan., 1867, C.O. 129/120.

[3] Especially as the bank had published the statement that the Home Government was definitely prepared to incorporate the bank on the basis of the Asia Banking Corporation's charter. Cf. *Bankers' Magazine*, 1866, p. 549.

[4] Letter from Hongkong Bank to the Governor, 31 Jan., 1867, C.O. 403/15.

[5] Letter of C.O. to the Governor, 22 April, 1867, C.O. 403/15. Rules Nos. 10 and 12, directing dividends to be paid only out of profits, and limiting loans to directors.

was projected about this time by an outside group of Agency Houses, including Reid & Co., Oliphant & Co., and Chapman, King & Co. This was to be located at Shanghai at first, with a branch office in Hongkong.[1] There were other more pressing anxieties. In the early years, the Hongkong Bank became heavily involved in bad debts due by a local sugar refinery, and by the Hongkong Pier and Godown Company, its shares falling in consequence from a premium of 70 per cent in 1872 to a discount of 27 per cent in 1875. In the latter year, the London managers lost the bank £171,000 by making unauthorized investments in Spanish bonds and American railroads—this deciding the directors to appoint a strong London Committee of experienced bankers to supervise the office there. The Japanese business was prejudiced by excessive paper issues in Japan. Accusations began to be made at the time that the earlier high dividends of the bank had been paid out of capital[2]; and had it not been for the first China Loan of 1875, the bank would have made no profit at all for the year.

From 1876, however, the tide began to turn. In that year the bank much improved the market for its shares by paying its dividends (earned in terms of the Hongkong silver dollar currency) at a fixed rate in sterling. When the London office was established, silver dividends were made payable there in sterling at the fixed rate of 4*s*. 6*d*. per dollar. By 1876, however, the market rate had dropped to 4*s*. 3*d*. and there was naturally a rush on the part of shareholders to secure entry on the London register. In order to prevent the London shareholders from securing any advantage over those in China, the bank therefore adopted the practice in 1876 of declaring all its dividends in sterling, and paying them at the fixed rate of 4*s*. 6*d*. per dollar, which, in the period of a falling gold price for silver after 1876, involved substantial additional charges on profits. An important result is that the percentage dividends of the Corporation are much less variable than their sterling amounts indicate.

At the same time, the bank now reaped the advantage

[1] The capital was to be Taels 2,500,000. Cf. *China Mail*, 1 Feb., 1872.
[2] *China Mail*, 1 Feb., 1875.

of considerably increased business by refusing to become a party to the Eastern banks' agreement after the crisis of 1866, that they would neither buy nor sell bills at a usance exceeding four months sight. It was felt by all the banks except the Hongkong, that with the increased availability of steam communication with Europe, there was now no excuse for the proceeds of shipments not being promptly devoted to the taking up of acceptances drawn under letters of credit, instead of these bills being allowed to float about the market for long periods of from six to ten months. The Hongkong Bank profited from this agreement while it lasted by buying six months' paper, and selling its own four months' bills to its competitors, sometimes the only way in which they could obtain home remittances at all.[1] Again, by maintaining its silver capital in China throughout the great fall in silver at the end of the century, the bank was able to make substantial profits from the high money rates in all the Eastern markets, when its competitors, capitalized in sterling, were paring down their silver investments to a bare minimum and so causing a money scarcity. Perhaps the most important single factor in the bank's growing prosperity, however, was the accession to the General Managership in 1875 of Thomas Jackson, who with T. N. Whitehead, of the Chartered Bank, heads the long list of remarkably able bankers produced by the British Exchange Banks in the Far East. Three years after his appointment, Hongkong shares had recovered to 60 per cent premium; on his retirement in 1901, they were at 320 per cent premium. Several times after 1901, he was called back to the bank to take the helm in times of difficulty; the bank directors, the European business community in the East, and the native merchants,[2] gave him their confidence to an unusual degree; and under his brilliant but cautious leadership, the bank made very rapid progress. Branches were quickly opened in new territory, but not until the directors were assured that their business would form an organic part of the bank's

[1] Maclellan, *op. cit.*, p. 735.

[2] "The confidence of the native merchants" contributed not a little to the prosperity of the Corporation." Cf. *Overland China Mail*, 12 Aug., 1886.

activities. They considered it " not advisable to extend the interests of the bank, however brilliant the prospects, to places which could not be considered in direct contact with, or of immediate importance to, the trade of China." [1] From 1875, the early loan business with the Chinese Government had been on a silver basis ; it was decided in 1885 [2] (on a falling silver market) that any large borrowings in future would have to be repaid in sterling so as to protect the bank from long-term exchange risks.

For the remainder of the pre-War period, the bank grew steadily in size and prestige, suffering occasional heavy losses, typical of those which have afflicted the Eastern banks throughout their history, but showing great vitality and consistent growth at all times. In 1889 the Lyons agent defrauded the bank of Fcs. 1,290,000 by overdrawing his account without authority ; in 1890, there were heavy losses through the acceptance of forged opium warrants in Calcutta. From 1889–92, the Manila branch was caught by great fluctuations in the sterling value of the Philippine currency under the Spanish regime, and by arbitrary embargoes placed upon the movement of its funds by the local courts.[3] In 1892, the failure of the bank's comprador, Lo Hop Hing, brought direct heavy losses to the bank as well as causing defaults amongst the native bankers to the amount of $1,200,000 in consequence. But in the main, the bank's progress was not seriously shaken by such events. The criticisms of the bad years 1874 and 1875, the antagonisms of 1887, when the directors were accused of gambling in the bank's shares,[4] and the anxieties of the fall in silver and of the Australian crash of 1893, which directed suspicions at the bank's large sterling deposits,[5] were overcome in turn.

[1] Directors' Report, Feb., 1884. [2] *Ibid.*, Feb., 1885.

[3] In 1891, it was reported that $620,000 had been locked up in the islands for the past two years on this account.

[4] " The unfortunate position in which the Chairman of the great local bank finds himself through gambling in stocks is sufficiently public."—*Chinese Times*, 13 Aug., 1887. See also report in *Overland China Mail*, 1 Sept., 1887. The *China Mail* of 26 Aug., 1891, has similar accusations.

[5] The bank was supposed to use these in its Eastern business in such a way that they became endangered by exchange fluctuations, and could not be readily recalled. Figures for these deposits were published separately for a few years after 1893. They were used to purchase outward

By 1914, the Hongkong Bank enjoyed the high reputation and secure position of the foremost foreign bank in China.

After the striking collapse of the Eastern banks in the crisis of 1866, few fresh ventures were successfully essayed for some time. Foreign trade with the Far East was in few hands, the banking business was complicated and needed considerable capital, and the existing institutions were powerful, long-established in most cases, and fiercely competitive amongst themselves. The pace was too hot, indeed, for some of the older institutions ultimately, and most of the few new banks which managed to get beyond a prospectus had to struggle very hard to get a footing in the business. The British and Netherlands Bank, sponsored in 1864 by the Alliance Bank, the Merchant Banking Company of London, Paterson, the Chairman of the Standard Bank of South Africa, and some Batavia firms, was expected to establish itself in Batavia and Madras, with extensions to China and Australia. It failed to get started. The Bank of China, Japan, and the Straits, constructed in 1890 out of the business of a former trust company lending money on mortgage throughout the ports of the East, started life with a mass of rapidly depreciating silver debts from the mortgage business, and finished with a large deficiency in 1902, unable to raise any money by calls on its Chinese shareholders.

All the Eastern banks were of course caught by the fall in the gold value of silver towards the end of the century, and three of the older institutions put this forward as an excuse for the severe losses which they suffered during this period. These losses in fact brought about the liquidation of two—the Agra Bank and the great Oriental Banking Corporation, and forced the reconstruction of a third—the old Chartered Mercantile Bank of India, London and China, one of the earliest of the whole group. But they were by

mercantile bills, silver bullion, Mexican dollars, and Council Bills, pending the arrival of homeward bills purchased simultaneously by the Eastern branches. The business was thus independent of exchange fluctuations, and so long as exchange business was transacted at all, and the bills met on each side, the safety and liquidity of these deposits could never be in doubt.

no means wholly or even mainly due to the unavoidable effects of the fall in silver, but rather to gross mismanagement and inability to progress at the rate demanded by increasing competition. As an exchange bank, every institution in the Far Eastern group could cover its exchange risks almost entirely, the business being a short-term one; and the success of the surviving members of the group shows in fact how completely this could be done,[1] the resilience of the net profits of the Hongkong Bank and the Chartered Bank of India being particularly noteworthy in this respect. The losses on silver of which the Chartered Mercantile Bank directors complained during the reconstruction negotiations in 1893 were mainly, if not entirely, avoidable by prudent management; the losses of the Agra Bank were due as much to old age and general lack of adaptability as anything[2]; and the disastrous failure of the Oriental Bank was the result of a complex of misfortune and recklessness, of which the fall in silver was a minor element. These banks did not depend for their profits solely on imports into the East, but on the whole foreign trade of this vast area; and a large part of their failure to adjust themselves to the new levels of exchange must be put down as a technical shortcoming of management.

But new banks were naturally hesitant about entering an area which obviously required so much experience and technical skill to exploit successfully, and it was not until the years immediately preceding the War that any important step was made. The results were discouraging. The Anglo-Japanese Bank of 1909 disappointed great expectations by scraping up only a very small business in the East, just sufficient to pay expenses without yielding any dividend. When the shares taken up in Japan gradually began to find their way to London, a group of Lord St. David's trust companies bought a large interest, altered the name of the bank to the Commercial Bank of London, and abandoned the Eastern business altogether. The Japanese authorities

[1] Table 26.

[2] It used to be said of the old Agra Bank in the East that it was possible to buy drafts in one department of the bank and sell them to another at a good profit immediately afterwards.

seem to have been by no means eager that a new bank of this kind should work in Japan,[1] and difficulties were placed in the way.

The National Bank of China seemed destined for a more successful career. It was started by Russell & Co., an Eastern Agency firm, at the instance of leading native Chinese merchants of Hongkong and the Treaty Ports, who wanted a bank of their own, more truly identified with native interests than the exclusively foreign banks. A large part of the capital of £500,000 was subscribed by the Chinese and the organization was based on that of the Hongkong Bank, with a Head Office in Hongkong, and a Committee in London. The Hongkong office was opened in 1892, and branches at Amoy, Shanghai and Yokohama followed shortly afterwards. But the suspension of Russell & Co. before the bank had been in existence a year, compromised its business; it failed to get a firm footing, and had to be liquidated in 1911 owing to the great difficulty of completing its staff.

Thus, before the War, the few old and powerful banks in the Eastern group, having witnessed the disappointment and losses which befell so many of the new projects since the failures on the grand scale of 1866, could with reason assure themselves that at least they had not much to fear from new competition. Their position was indeed one of commanding size, stability and prestige. At the head of them all stood the Hongkong Bank, now doing a larger foreign exchange business than any other bank in the Far East, its exchange quotations being used as the basis for all other foreign exchange rates quoted in China. The bank was an important depositary for the working capital of British and other railway lines in China, for receipts from the Salt Gabelle, and for receipts from the Maritime Customs, which in 1914 was collecting revenue for the service of nine foreign loans and the Boxer Indemnity. The Maritime Customs deposits (transferred to the bank for some years *free of interest*) were first systematically paid over to foreign banks in 1911, when the diplomatic body in Peking, alarmed

[1] *Bankers' Magazine*, 1891, p. 823.

by the revolutionary disorders, pressed for arrangements whereby the proceeds of these taxes would be sent weekly to the headquarters of the Maritime Customs office, and paid over immediately to the banks most interested in Chinese secured loans, namely the Hongkong Bank, the Deutsche-Asiatische, and the Russo-Asiatic. The major proportion of these receipts passed to the Hongkong Bank and provided it with a large and steady silver income on which to base its foreign exchange business. In addition, the bank managed a number of Chinese Government loans, making amortization arrangements and interest payments abroad. With Jardine, Matheson & Co., it formed the British and Chinese Corporation, and Chinese Central Railways Ltd., in order to finance railway development in China. British capital, now interested in nine of the sixteen Chinese Government railways, has directly financed and constructed 800 miles of line in the Yangtze Valley, and is interested in a further 2,000 miles of line in adjoining territories. The Hongkong Bank has found by far the greatest part of the capital for this development through its London office, and one or other of its affiliations has usually contracted for the purchase of the construction materials.

Without the special connections of the Hongkong Bank, the other members of the British group nevertheless carried on their business along the same basic lines. As " Exchange Banks," they made most of their profits from their dealings in foreign exchange. Any local deposits they might collect were usually invested in the important exchange centres, such as Shanghai or Hongkong, if the obstacles to transfer due to high internal exchange rates, were not too great. Before 1911 such deposits generally belonged to foreign mercantile houses and foreign residents, as the local banks retained the native accounts by offering higher interest rates. But after the Chinese banking crisis of 1911, consequent upon the Revolution, there was a distinct tendency for the deposits of the foreign banks to grow, when the native merchants lost confidence in their own banks. In the large trading centres, the foreign banks financed exporters of Chinese produce by buying forward the exporter's gold

proceeds,[1] against a present advance in silver to enable him to pay for the goods, the bank's security being the shipping documents which the exporter produced when the goods were dispatched. For many years before the War, exporters who had bought on their own account could have their subsequent disbursements and packing charges covered by a "packing credit" from the bank, secured by a general charge on goods in the exporter's warehouse, but, by 1914, this practice was falling largely into disuse on account of the indefiniteness of the security,[2] and the fact that the packing credits very often turned out to be covered by goods on consignment, rather than outright sales.[3] In addition to the demands of exporters for silver advances, the banks had also to look after importers of European produce who entered the exchange market as forward buyers of gold currencies. Thus the banks were enabled to set off their forward transactions against one another, equilibrium being reached either by movements in the rates, or by bullion transfers. All the foreign banks were consequently important dealers in bullion.

The banks did not undertake the discounting of inland bills, and made very few loans to Chinese individuals or firms unconnected with the foreign trade of the country. But there was considerable lending of short-term money to the Chinese "cash-banks" in Shanghai, until the crisis of 1911, when the cash-banks refused to give priority to these

[1] Silver drafts on European buyers are not drawn in practice, the risk of silver fluctuations being much more easily carried in China, where the banking system has developed specially to deal with this kind of business. For a clear and authoritative account of the finance of Chinese foreign trade by the foreign banks, cf. evidence of D. McLean, London manager of the Hongkong Bank, before the Gold and Silver Commission, 1887. First Report and Minutes, 4986–5030, B.P.P., 1887, Vol. XXII.

[2] Cf. the Hongkong Bank's losses in Yokohama (Annual Report, 1884) through the defalcations of a Swiss firm of silk buyers. The bank never inspected the contents of go-downs hypothecated to it.

[3] The risk to the bank of being left with unsold goods on a falling market is obvious. The lending bank moreover would often grant packing credits without authority or cover from the buyer, but with the knowledge or expectation that the exporter would eventually produce a bill and shipping documents to be paid under a regular Letter of Credit, when he had finally shipped the goods. The usual practice nowadays is to have the authority for a packing credit inserted in red lettering in the body of the Letter of Credit itself. For examples, cf. Spalding, *Bankers' Credits*, London, 1930, pp. 91–5.

loans, then secured only by the comprador's guarantee. The foreign banks consequently began to demand negotiable security and a fixed maturity date after 1911, and the revival of this business to its former proportions was greatly hampered.[1]

Although in all these activities, the British group headed by the Hongkong Bank took a large, if not the preponderant share, important assaults were being made upon their position in the years just prior to the War by competition from new institutions set up to represent the commercial interests of the other great trading nations. Some aspects of this competition were rather disquieting. A local critic noted in 1914 [2] that

> it is generally accepted that the number and branches of the foreign banks are in undue proportion to the extent of legitimate business available. Every nationality wants to have its own banking institution, partly through national pride, and partly with the hope that the existence of banks would bring about an increase in the business of the nation concerned. . . . The insufficiency of legitimate business leads them to take risks which no sound business institution in Europe would care to take.

The more aggressive of these " national " banks, in addition to competing even for Chinese deposits,[3] tried to secure for their own nationals the most valuable economic privileges and the largest share of Chinese foreign trade,[4] already almost entirely financed by the foreign banks. But the main reason for their origin, and a most important branch of their business, was the flotation of long-term loans to the Chinese Government.[5]

All the important foreign banks in China have undertaken this kind of business, sometimes singly, sometimes in groups. The Hongkong Bank, which for a long time operated alone

[1] *Das Bankwesen in China*, Dzen, Berlin, 1927, p. 108, gives figures for the " chop " loans of the foreign banks, 1911–13.

[2] S. R. Wagel, *Finance in China*, Shanghai, 1914, p. 257.

[3] Wagel (*op. cit.*, p. 260) speaks of the foreign banks as being swollen with Chinese deposits, in particular from " usurious and corrupt officials."

[4] Cf. the tactics of the Japanese Cotton Cloth Export Association in 1904–5, which practically drove American cottons out of Manchuria by the help of a very low discount rate and other financial assistance from the Yokohama Specie Bank.—Dzen, *op. cit.*, p. 134.

[5] See Table 24.

in China, and kept itself strictly independent even of the London joint stock banks, eventually found itself forced into the position of leader of the British banking group in the Far East for this purpose. On this very important part of the activities of the British banks in China a final comment may be offered.

The flow of foreign capital into China would in any case have been impeded by the indifference of the Chinese to economic development, their hostility to foreign intervention, and the chronic weakness and incompetence of the Manchu Government. As it was, the infiltration was slow when it began, and late in coming, partly because of the reasons mentioned, but also because much of it was controlled by foreign governments, who, anxious themselves for political predominance in China, or anxious to prevent other nations from obtaining it, saw great advantage in manipulating for political ends the natural flow of their own national resources into a vast country of fabulous economic potentialities. The flow was relatively small, and almost all on private account for the greater part of the nineteenth century[1]; but a new era opened with the Sino-Japanese War of 1894–5, during which two important Chinese loans were issued by the Hongkong Bank. When the terms of peace had been concluded, and modified to the advantage of China by the joint efforts of France, Germany and Russia, the financing of the indemnity of 230 million Kuping Taels was at first undertaken by a Franco-Russian group, this enabling the two Powers to buy their way into political ascendancy in the Far East in the customary manner. Russia had at that

[1] The first foreign loan to the Chinese Government is reported to have been made in 1865. The Government began to borrow from the Hongkong Bank in 1877 with a loan of Taels 5,000,000 secured on the customs duties at Wuchow, Shanghai, Canton and Hankow, "the extraordinary feature of this loan being the very high rate of interest charged, not because the bank wanted to charge interest, but because the Chinese themselves offered the terms!"—Wagel, *op. cit.*, App. A. Another source names the Hongkong Bank as the pioneer in 1875 with a loan of Taels 1,720,000 (£540,000) to the authorities at Foochow. Cf. Remer, *Readings in Economics for China*, Shanghai, 1922, p. 376. Remer (in *Foreign Investment in China*, Ann Arbor, 1933, p. 342) cites the second loan of 1877 as the origin of "the connection between war and foreign borrowing. It was for the support of the campaign against the Mohammedan rebels in W. China."

time no banking channel for her foreign investments in China, unlike Great Britain, France (the Banque de l'Indo-Chine) and Germany (the Deutsche-Asiatische Bank), and a suggestion for founding such an institution, which came from the Siberian Railway Committee then desirous of extending the railway through Chinese territory, was eagerly adopted, the Russisch-Chineschen Bank being formed in 1896.[1]

The main European Powers with large economic or strategic interests in China now had a most useful economic machine to hand in the shape of these "national" banks.[2] With the exception of the British bank, there was in each case a direct connection between the individual banks and the respective Governments. The Russo-Chinese Bank was immediately under the control of the Russian Cabinet, and a known instrument of Russian Imperialism in the Far East [3]; the founders' group of the Deutsche-Asiatische Bank included the Prussian State Bank, and its original statutes provided that the appointment of a President had to be ratified by the Emperor [4]; and the Banque de l'Indo-Chine was the official depository of the local governments in the French colonies of the Far East, was obliged to open branches wherever the Government requested it to do so, and was generally reckoned to be the "political instrument" of authority in Paris.[5] The Hongkong Bank alone had no direct connection with its Government, but nevertheless looked to official support for its operations, and was constantly guided by official suggestions.

At the end of the Sino-Japanese War, when the great

[1] On 28 Aug., 1896, a secret agreement was made between Witte and Li Hung-Tschang whereby China agreed to subscribe Taels 5 millions to the total capital of Roubles 6 millions of the Russisch-Chineschen Bank, the bank then contracting with the Chinese Government for the construction of the famous Chinese Eastern Railway. Cf., MacMurray, *Treaties and Agreements on China*, London, 1921, Vol. I, pp. 74, 78, and Remer, *Foreign Investment in China*, p. 556.

[2] There was, however, a majority French investment in the Russo-Chinese Bank. Cf. Yakhontoff, *Russia and the Soviet Union in the Far East*, London, 1932, p. 69; Clyde, *International Rivalries in Manchuria*, Columbus, 1928, p. 49.

[3] "Sie soll . . . überhaupt den russischen imperialen Gedanken dienen." —Claus, *Das Russische Bankwesen*, Leipsic, 1908.

[4] Strasser, *Die Deutschen Banken im Ausland*, München, 1925, p. 114.

[5] Soltau, *Die Französische Kolonialbanken*, Leipsic, 1907, p. 130.

influx of foreign capital was heralded by the financing of the indemnity by the Franco-Russian group referred to, the Hongkong Bank allied with the Deutsche-Asiatische [1] after its defeat by the group in the matter of the indemnity loan,[2] and shared future Chinese administrative and railway loans with it. The alliance was valuable from the point of view of the German bank, which after only six years of existence thus gained a position of equality with the other "national" banks in the competition for loans and other concessions; it was also very fruitful for English interests —the £16 millions loan of 1898, for instance, secured a British national as Inspector of the Maritime Customs for forty-five years.[3] But it was broken up after the "Battle of the Concessions" of 1898–9, begun when China sought to borrow again in order to pay off the remaining instalments of the Japanese indemnity. Russia offered a loan in exchange for a monopoly of railway building in Manchuria and Northern China; Great Britain if her railway rights were extended along the Yangtze Valley. The loan was eventually awarded to the Anglo-German group only after an angry dispute,[4] and the cession of important privileges to Great Britain: it threw into sharp relief the contending national interests involved.

China was now being parcelled out amongst the Powers into more or less definite sections for economic development, Russia, for instance, claiming Manchuria and Pechili, Germany the Province of Shantung, and Great Britain the Yangtze Valley [5]; and for railway and commercial purposes the international banking group was out of favour. The Hongkong Bank now parted company with its German ally,

[1] Long before this, of course, the Hongkong Bank had numbered the partners of great German trading firms in the East amongst its directors. Non-British directors had indeed figured on its Board from the beginning.

[2] Cf. Whale, *Joint Stock Banking in Germany*, London, 1930, p. 95.

[3] McCordock, *British Far Eastern Policy*, New York, 1931, pp. 175–6.

[4] Cf. B.D.O.W., Vol. I, F.O. Memorandum on Anglo-Russian Relations, 1892–1904.

[5] Cf. Russian annoyance when the Hongkong Bank agreed to furnish capital for the Peking-Newchwang Railway on mortgage (China No. 2, 1899, B.P.P., 1899, Vol. CIX, pp. 4 and 10). The line was suspiciously near Manchuria, and the loan agreement provided for the handing over of the entire undertaking to the bank's representatives on default. McCordock, *op. cit.*, Chap. III.

so as to be able to work the British commercial concessions [1] separately.

In order that British commercial interests may be fully represented, and that we shall be in a better position to cope with the powerful combination now opposed to us in China, the bank has decided to form a strong, representative and influential syndicate to deal with railway construction in China.[2]

The bank requested for the members of the syndicate "such support as they may require" from the British Ambassador. Of this official support the group, with the Hongkong Bank, the British and Chinese Corporation (its investment associate) and Jardine, Matheson & Co. at the head, was able to command the virtual monopoly for some years.[3] The monopoly was used to extract the most stringent guarantees from the Chinese Government to secure the obligations under the railway loans, and the position of the syndicate in practice was in many cases that of a mortgagee in possession. The Agreements concluded between the British and Chinese Corporation and the Government for the construction of the Shanhaikuan–Newchwang Railway, the Shanghai–Nanking Railway, and the Canton–Kowloon Railway, contain provisions reserving the vital posts of Engineer and Accountant for British subjects, giving the Corporation the right to intervene and manage the line for the bondholders on default of interest, and exempting the line from Chinese taxation. The bank usually got a substantial commission on the loan service, and the Corporation usually purchased materials for the railway in England (for a fee of 5 per cent of the purchase money) under the general clause that "at equal rates and qualities, goods of British manufacture shall be given preference over other goods of foreign origin."

The collection of revenue for the service of the Japanese indemnity loans forced the Chinese Government to put more

[1] For list of them (mostly owned by the Hongkong Bank and Jardine, Matheson & Co.) see letter dated 23 Nov., 1898, of the British Ambassador at Peking to F.O. Correspondence on China, C. 9131, 1899.

[2] Letter from Hongkong Bank to F.O., 4 April, 1898. Correspondence on China, C. 9131, 1899.

[3] Cf. Overlack, *Foreign Financial Control in China*, New York, 1919, p. 48.

pressure on an antiquated system of taxation than it could bear, and the deep resentment which this aroused was not unnaturally directed against the foreigner assumed to be responsible for the loans.[1] A wave of fanatical anti-foreign demonstrations culminated in the Boxer Rebellion of 1900, not the least important consequence of which was the restriction of further Chinese borrowing. The indemnities imposed by the Powers absorbed the largest part of the existing and possible Chinese revenues for years afterwards, and railway and industrial programmes had to be financed by the profits of the railways themselves.

In 1908 the situation had improved somewhat, and there was another reshuffle of the banking groups. The Hongkong Bank, the Deutsche-Asiatische, and the Banque de l'Indo-Chine came together to finance railways jointly in the spheres of interest of each of the national groups.[2] But American participation in the business was now invited by the Chinese Government on the personal intervention of President Taft, and after some ineffectual efforts had been made by American bankers to arrange a Chinese loan on their own account, an inclusive group, the original Four-Power Consortium, was formed at last in 1910. The plain object, to avoid weakening and politically dangerous competition, was laudable ; but its achievement was difficult. It was with much hesitation and considerable evidence of internal dissention due to mutual hostility and suspicion, that the Consortium proceeded to arrange further loans to be served by new sources of revenue. The £6 millions Hukuang Railway loan was issued in June, 1911, and a further " Currency Loan " of £10 millions would have been floated subsequently had not the Revolution intervened.

The disturbed state of the country consequent on the Revolution, and the urgent financial needs of the revolution-

[1] Cf. Feis, *op. cit.*, p. 440.

[2] This trafficking in concessions amongst the banks led to some criticism of the Hongkong Bank at home. *The Times* (9 May, 1909, quoted by Overlack, *op. cit.*) expressed wonder that the British Government " should delegate to one British bank, which is naturally compelled to consider financial rather than national interests, the right to assist the extension of German influence into the richest province in China " (the Yangtze Valley).

aries, offered a series of excellent opportunities for European Governments to buy their way into a position of dominance in the new China. At first the Powers maintained a strict neutrality and stopped all loan negotiations—mainly because they feared anti-foreign uprisings and retaliatory trade boycotts from the parties in the conflict not assisted. But Japan began to offer money, and its acceptance by the revolutionaries disturbed the commercial interests of other nations, notably of Great Britain. "Demand was made on the British financial group to break the deadlock, and advance funds to Sun-Yat-Sen, to prevent the China Merchants Steam Navigation Co. passing into the control of the Japanese."[1] Assured of Government support, the Hongkong Bank advanced Taels 2 millions on behalf of the Four-Power Consortium in February, 1912, securing an option for equality of treatment in the matter of the large "Reorganization Loan" which was to come. Unfortunately, a serious threat to group action in this matter immediately developed. Part of this Reorganization Loan was intended to be devoted to industrial enterprises North of the Great Wall—in the Russian preserve of Manchuria—and the Russian Government consequently tried to break up the banking Consortium, and the agreement it was responsible for.

One way of doing this was the formation of a "pirate" syndicate under the leadership of the Banque Russo-Asiatique[2]; and when the official Consortium refused co-operation, certain of the pirates forthwith lent the new Chinese Government (true to the traditional policy of playing off one group against another) a million pounds on their own account, again in exchange for an option on the Reorganization Loan. The British members of the pirate syndicate (there were French and Belgian members also, all

[1] Overlack, *op. cit.*, p. 238.

[2] A new name for the old Russisch-Chineschen Bank, reorganized after the Russo-Japanese War and by amalgamation with the Banque du Nord of St. Petersburg in 1910. This latter brought in more French capital, the Banque du Nord having been founded by the Société Générale de Paris. According to Lewin (*Die Heutige Zustand der Aktienhandelsbanken in Russland*, Freiburg, 1912) most of the Russo-Asiatique shareholders in 1910 were French. Cf. Remer, *Foreign Investment in China*, p. 581.

under Russian leadership) consisted of the Eastern Bank, Schroeders, and Brown, Shipley & Co.; they represented the growing resentment in the City against the close monopoly of the Hongkong Bank and its associates in Far Eastern finances. But this monopoly was too valuable to be given up without a struggle. Immediate complaint was lodged at the Foreign Office by the Hongkong Bank, and the comforting assurance was received [1] that

> H.M. Government recognize that they are under obligation not only to the Hongkong and Shanghai Bank, but also to the Governments and groups concerned in these advances, not to give their support to any other group in negotiating with the Chinese Government any loan as described above until the large loan out of which these advances and the expenses of reorganization are to be covered, has been successfully negotiated.

At the same time, no *exclusive* official support of the Hongkong Bank was promised for the future.

> The best method of obviating the difficulties in regard to your future business in China likely to arise out of the competition of other British firms, and *the obvious impossibility of granting exclusive Government support to one British bank*,[2] is the formation of a British group somewhat on the lines of the French and German groups.

Through French mediation, the prospects of further piracy inspired by Russia were shelved for the time being by the admission of Russia herself to the Consortium, which was now also joined by Japan. Confident of their united strength and purpose, and with the pirate option safely annulled,[3] the group now demanded stringent safeguards (including foreign auditors with executive powers) from the revolutionary Government as to the security of the service of the Reorganization Loan and the application of the proceeds. But in the hesitation caused by these demands, which imposed unprecedented limitations on Chinese sovereignty, another outside syndicate was formed, headed by

[1] Letter of F.O. to Hongkong Bank dated 14 March, 1912.—"Correspondence Respecting Chinese Loan Negotiations," Cd. 6446, 1912.

[2] My italics.

[3] By the use of extreme pressure on the Chinese Government, and against the strong protest of the Eastern Bank.

Mr. C. Birch Crisp, a London stockbroker, Lloyds Bank, the London, County & Westminster, and the Capital & Counties. This negotiated for a Chinese loan of £10 millions in exchange for an option to participate in larger subsequent loans. The Foreign Office, stimulated by angry complaints from the Hongkong Bank, was again up in arms.

> H.M. Government did not consider that China was free to borrow outside the Consortium. . . . As a matter of general principle, H.M. Government would never support a loan concluded without adequate guarantees for the control of the expenditure of the proceeds and without proper authority.[1]

The British Ambassador was accordingly instructed to " warn the Chinese Government in the most serious manner of the unwisdom of their persisting with this loan at this juncture." [2] Interviews with Mr. Crisp at the Foreign Office in London proved unavailing, and the first half of the " Crisp Loan " was issued ; but the Chinese Government were successfully pressed to cancel the Crisp option on the Reorganization Loan and compensate the syndicate with £150,000. The official banks breathed freely once again. Apart from the desertion of the American participators owing to the influence of President Wilson,[3] the original Consortium, backed by the European Governments, could congratulate itself on having saved its main structure from shipwreck ; and the £25 millions Reorganization Loan was finally issued under its auspices in 1913, secured by the salt revenue reorganized under joint Sino-European control.

Owing to the conflicting aims of the various Governments, however, and the competition of outside banks, especially in England and France,[4] its position was never completely watertight, and there was no serious attempt to make it so outside the sphere of large Government loans for general

[1] Letter of Sir E. Grey to Sir J. Jordan at Peking, 23 Aug., 1912.—" Correspondence Respecting Chinese Loan Negotiations," Cd. 6446, 1912.

[2] Letter of Sir E. Grey to Sir J. Jordan, 23 Sept., 1912.—*Ibid.*

[3] Who said " the conditions of the loan seem to us to touch very nearly the administration and independence of China herself." Cf. Field, *American Participation in the China Consortium*, p. 111.

[4] Notably the ill-fated Banque Industrielle de Chine (in which some British capital was interested through the Peking Syndicate) which brought out a " pirate " Chinese loan of Fcs. 100 millions in Paris in 1914.

purposes. Railway and industrial, as well as general administrative loans were at first covered, but outside pressure from private groups was too strong, and in 1912 the Consortium formally renounced any claim to monopoly in any but Government loans. This move was supported by the British Government, firstly because of Japanese insistence, and secondly, on account of "pressure from independent banking and other interests outside the British group, which made it impossible for them to recognize the British group in the Consortium as alone entitled to their official support for the financing of industrial enterprises in China."[1] So far as the Consortium could succeed in obtaining a monopoly of public loans to China, the Hongkong Bank obtained the lion's share of the advantages accruing to that position, to the exclusion of other important British domestic and overseas banks desiring to enter the business. In this branch of British banking business in China, as in others, the Hongkong Bank played the dominant and all-important part.

[1] Letter from Mr. Balfour to U.S. Ambassador, 14 Aug., 1918.—"Correspondence Respecting the New Financial Consortium in China," Cmd. 1214, 1921.

CHAPTER VII

THE WAR AND THE ERA OF ECONOMIC NATIONALISM

THE position of the British international banks was profoundly affected, mainly for the worse, by the economic consequences of the War, though unmistakable signs of many of the changes which have since taken place were observable before 1914. Two major tendencies could be clearly discerned. There was the gradual extension of the branch network of the British joint stock banks in Western Europe, in answer to the growing agitation in the City against the " foreign invasion " of the London money market to which reference has already been made ; and there was the growth of economic nationalism in the less advanced countries, which was making the operation of all international banks much more difficult. The pressure of War and post-War needs provided a notable stimulus for the first ; and it is common knowledge that the effect of the War was to strengthen the second out of all proportion, till at present the cramping effect of economic nationalism on all international relations has come to be considered on all sides as a potent factor in the post-War depression.

Thus in Europe certain ground has been gained—much of it useful and profitable, some of it merely an expensive monument to an excess of zeal on the part of the City or the Government. In this direction it is easy to see obvious limits to expansion—most of the ground is already occupied, financial protectionism is everywhere vigilant, and British investors' experience of post-War reconstruction finance in the debtor countries of Europe has been not altogether happy. In the Near East, the Far East, and Latin America, the very rapid rate of expansion during the nineteenth

century has been abruptly checked in most countries, and here again, the limits of expansion seem to be within sight, given a continuance of the prevailing political tendencies. In these areas, too, competition over the whole field has increased past all recognition, to correspond with the new economic alignment of the Powers after the War [1]; though the long experience and the well-established position of the British banks have stood them in good stead in the struggle to retain old and valuable business connections, and to make profitable new ones. For the time being, the flow of capital from the principal creditor countries to non-European destinations, has almost ceased, and attention has shifted to the task of saving investments already made; but the pre-War rivalries of the international banks are merely latent, and the revival of capital movements on a large scale will doubtless reveal them as strong as ever.

Expansion in Europe was first of all due to the initiative of the London deposit banks. With the exception of the Midland Bank, all the great joint stock banks had formed European affiliations and had opened many European branches by the end of the War. The refusal of the Midland Bank to become involved with foreign branches has been largely due to the influence of Sir Edward Holden, who was opposed to ventures in a foreign field, where the bank's knowledge of local conditions would be relatively inadequate. In 1921 Sir Edward explained that "we have refrained from competing with our foreign friends in their own country [by branches or affiliations] and I cannot help thinking we have gained favour in consequence." He considered that their policy "besides having the merit of enabling us to extend our relations with foreign banks, gives greater security to our domestic depositors by restricting our activities to the home field." The Midland Bank stuck to its determination to avoid anything more than foreign agency connections throughout the War and after,[2] in spite

[1] See Table 1.

[2] In 1915, there was the rumoured flotation of a French subsidiary, which suggests the directors may have considered the matter, but it came to nothing.—*Bankers' Magazine*, 1915, I, p. 601. A decision to open in Petrograd an office for information only, was announced in 1917.

of the large possibilities of profit which offered after 1914 in sharing the Army banking business, and the even larger possibilities arising out of the long-awaited post-War boom in foreign trade. The currency disorders which followed this short-lived boom brought considerable exchange profits to the banks with European subsidiaries.[1] Still the Midland preferred to take what were no doubt smaller profits by passing its European business through agencies.

But the other banks were drawn in one by one. Lloyds and the Westminster Bank already had a footing in France in 1914. Cox & Co. (France) Ltd., was now reorganized in 1915 on the basis of a joint partnership of the London and South Western Bank and Cox & Co., the Army bankers, the subscribed capital being increased to £200,000 (half paid up), of which each bank held an equal share. Branches were then in operation at Paris, Boulogne and Rouen. The National Provincial Bank by subscribing for £600,000 of additional capital, joined Lloyds on equal terms when Lloyds Bank (France) was recapitalized in 1917. The original network of French branches of the deposit banks [2] and of their subsidiaries, was soon extended to other countries on the return of peace, when the banks opened branches in Belgium, Germany,[3] Switzerland, Spain,[4] Italy, and North Africa. In recent years, however, the branches in Spain and Germany have been closed altogether,[5] and the number of those remaining has shown no tendency towards increase for some time. As private limited companies, these

[1] Cf. Robinson, *Foreign Policies of the Big Five.* Institute of Bankers Pamphlets, Vol. CXXIII, p. 3.

[2] The Belgian and Spanish branches of the Westminster Bank were up to 1920 direct branches of the parent institution.

[3] For the practical working of the Cologne branches see Upwich, *Die Englischen Grossbank filialen in Deutschland,* Berlin, 1928.

[4] "This rapid growth is not without its anxieties. We observe with regret signs of jealousy amongst some of the native banks, notably in Spain."—Walter Leaf at Westminster Bank Annual Meeting, 1921.

[5] In Germany, Lloyds and Barclays closed in 1925 because of the departure of the Army of Occupation. In Spain branches were closed because of oppressive taxation, new high tariffs, and the tactics of the local Bank Clerks Union, which was reported to have forbidden the management to dismiss employees at will.—*Bankers' Magazine,* 1923, II, p. 310.

continental affiliations publish no annual accounts,[1] and their local European returns are incomplete. There is a general impression, however, that their showing in recent years has been far from uniformly successful. Their apparent sphere of usefulness lies largely in the finance of international trade at the great commercial centres of the Continent, the industrial and exporting centres of the interior, and the more important ports. In general, they avoid competing for local accounts which do not involve international business, partly because of a possible weakening of the position of the parent bank, and partly because they realize that legal restraints would ultimately be applied if they showed signs of exceeding these limits.

During the War, at any rate, these various efforts of the joint stock banks were felt to be inadequate. As many of the obvious gaps left in the British banking structure by the departure from London of the enemy banks remained unfilled, there was a definite drift of public opinion in favour of Government initiative in the matter. The issue was first raised officially in 1916 by Mr. Walter Runciman, then President of the Board of Trade, who at the beginning of the year delivered a critical speech urging that our banks should be "a little more venturesome" like their German rivals. In the angry, but not entirely profitless controversy which followed, the conservative group, led by Sir Edward Holden,[2] maintained that the existing organization, with specialized banks and extreme division of labour amongst them, was quite adequate for its limited tasks; but that a competent Commission might formulate a plan for a foreign trade bank as a special institution, with which the deposit banks would have no direct connection. In July, 1916, therefore, the Government appointed an expert Committee, led by Lord Faringdon and including representatives of private bankers like Baring Bros., Huth, Glyn, Goschen,

[1] The meagre returns under Section 131 of the Companies Act are of very little use.

[2] Cf. speech of Sir Edward Holden before the Associated British Chambers of Commerce, 1 March, 1916, and the subsequent resolution calling on the Government to facilitate the establishment of "a large credit bank or banks" to develop British trade abroad.

and of Lloyds and the Westminster Bank amongst the joint stock institutions, in order " to consider the best means of meeting the needs of British firms after the War as regards financial facilities for trade, particularly with reference to the financing of large overseas contracts."

The Committee had to admit [1] that " the Colonial Banks and British Foreign Banks and Banking Houses render immense assistance to British trade abroad and certainly in the Far East and in many parts of South America British banking facilities do not fall short of those of any other nation." But the arrangements for co-ordinating these facilities were reported at fault. Since the joint stock banks could not, with safety to their depositors, grant the long credit now required in certain markets, a special institution ought to be created to do this—a British Trade Bank ; and this should use the existing British and Anglo-foreign banks as far as possible (as well as the diplomatic and official services) to organize an up-to-date Information Department for the benefit of traders. The functions of the new institution would have to be kept clear of deposit banking. It could not accept short deposits, but would specialize in commercial credit and foreign exchange business, participating on joint account with other banks in lending operations, which owing to unusual magnitude and length of time, they were unable to undertake alone.

The Faringdon Report was unpopular in the City and it is noteworthy that the representative of Baring Bros. refused to sign it. The joint stock banks showed a certain hostility to the proposed name of the " British Trade Bank," with its implied slur on their own lack of enterprise, and in deference to their wishes, the bill finally introduced into Parliament, based on the Report, provided for the creation of the " British Trade Corporation." The Corporation was promised Government sympathy and support [2] ; but the attempt to charter it had a rather rough passage in the House of Commons. Complaints were made that the Corporation would be able to compete with other merchants with Government support ; it would monopolize the official

[1] Cd. 8346, 1916.

[2] Parl. Debates, 1917, XCII, p. 2568.

assistance of the Consular and Diplomatic Service abroad; the directors would make too much money out of it. The House had to be assured that no State-aided competition and no monopoly was intended [1] and some indiscretions in the Deed of Settlement had to be modified,[2] the Government meantime holding up the Charter, and issuing a White Paper to explain its innocuous provisions.[3] The Charter itself was dated 21 April, 1917, and incorporated the new institution with a capital of £10 millions " for the purpose of carrying on the business of trading and banking in any part of the world." [4] It was to have its Head Office in England, and was to remain British in character.

Lord Faringdon stood at the head of the group of promoters, of which his former colleagues of the Committee were members, and became first Governor of the Corporation. A Board of imposing names was assembled, which included besides members of the Faringdon group, representatives of the Federation of British Industries, the Associated Chambers of Commerce, Vickers, Armstrong Whitworth, the Metropolitan Carriage, Wagon & Finance Co., the Calico Printers Association, the Birmingham Small Arms Co., the Bank of Liverpool, and other outstanding financial and industrial enterprises. But the bankers as a whole were lukewarm about the project. Lloyds and the National Provincial took small amounts of stock, altogether 40 per cent of the £2,500,000 capital first offered was subscribed privately, and the remainder was taken up by the public, applications being allotted in full.

[1] Parl. Debates, 1917, XCIII, p. 2446.

[2] Clause 135, p. 20, and clause 67, p. 13.

[3] Cd. 8607, 1917, stating that the Corporation had no exclusive access to Government information, and no monopoly as regards the representation of British trade abroad.

[4] The Corporation was specifically empowered *inter alia* " to carry on business as contractors, merchants, or traders . . . to promote or finance or to assist in the promotion or financing of businesses or undertakings of any description . . . to acquire or hold and dispose of any interest in any Railways, Tramways, Ships, Canals, Docks, Harbours, Armament Works, Shipbuilding establishments, Irrigation works, electrical works, gasworks, water works, and in addition any carrying, transporting, trading, industrial, agricultural, financial or manufacturing works, concerns or business of any description, and to carry on the same."—Cd. 8567, 1917, p. 26.

During war-time, the operations of the new concern languished. Lord Faringdon endeavoured to convince the 1918 Committee on Financial Facilities for Trade that " its sphere of usefulness is large " and that " additional institutions of this character may be required in the future," [1] but the Corporation's early history hardly justifies this view. The first ventures were singularly unfortunate, largely because they were undertaken in the years of the short post-War boom ; and it soon became obvious that neither the fears of the Corporation's competitors nor the hopes of its promoters could be fully justified in the event. Its dividends in the good years 1917–21 were nil, 2½ per cent, 4 per cent, 4 per cent, nil, and in March, 1922, at the beginning of the depression, Lord Faringdon had to recommend writing off half the capital. Of its affiliations only the Trade Indemnity Company remains. The Anglo-Brazilian Commercial and Agency Co. founded jointly by the Corporation and the London and Brazilian Bank in 1918 with a capital of £125,000, was intended to replace German merchants by British in the Brazilian trade. After the post-War boom the Corporation wrote off the whole of its investment in this company. The Levant Company was founded in 1919, the Corporation functioning as an issue house for a large part of the capital and purchasing £200,000 deferred shares on its own account. This was also intended to replace German influence, this time in the Near East. The Levant Co. invested in some Anglo-Levantine firms and bought a textile connection in Manchester but it was overwhelmed in the collapse of 1921, and the Corporation had to write off another of its investments. In 1918, 96 per cent of the capital of the National Bank of Turkey was acquired, again at an unfortunate time. This bank has now ceased operations. The South Russia Banking Agency, formed jointly in 1919 with Lloyds Bank, the Westminster and the National Provincial, proved another abortive move,[2] equally with

[1] Cd. 9227, p. 7.

[2] Interest in direct British banking connections with Russia had begun to increase after the formation of the Triple Entente and the Anglo-Russian agreement of 1907. But it never became very serious. Two small companies, the Anglo-Russian Bank, and the English and Russian

the Inter-Allied Trade & Banking Co. (to promote trade with Belgium and North France), and the Portuguese Trade Corporation, in which an interest was acquired in 1919.[1]

The outstanding success of the corporation was the flotation of the Trade Indemnity Company for credit insurance, a new and fruitful departure. But its own commercial banking activities were restricted to the granting of acceptance credits ; its branches, at Batoum, Belgrade and Danzig, were few, as it was bound not to open in an area already served by a British bank. On the whole, from the point of view of extending the foreign services and connections of the British banking system, it cannot be said that the Corporation was a great success. It was amalgamated with the Anglo-Austrian Bank in 1926. "The experiment of setting a new tradition in the financing of British industry and trade," wrote one well-informed observer,[2] "has definitely failed."

The Runciman speech and the trend of public opinion which it expressed also stirred the deposit banks to action in conjunction with the Government. In July, 1916, the British Italian Corporation was founded, at the instigation of the Government,[3] by a group of 23 prominent British banks (including 4 of the "Big Five") of which Lloyds and the Westminster Bank were the leaders. None of the capital of £1 million was issued publicly. An arrangement with the Government provided for an annual subsidy of £50,000 per annum for the first ten years, to be repaid without interest out of any profits over 5 per cent. An Italian

Bank, took shape just before the War. The first was a holding company with its principal investment in the shares of the Russian Commercial and Industrial Bank. These were sold in 1916 at an enormous exchange loss, and the bank turned itself into the British Bank for Foreign Trade, with a much-reduced capital. The English and Russian, sponsored in 1911 by Boulton Brothers and the Imperial and Foreign Corporation, had its Russian property confiscated by the Bolsheviks, and its few London assets were turned over to the specially formed British and Continental Bank.

[1] Cf. Robinson, *Foreign Credit Facilities in the United Kingdom*, New York, 1923, p. 55, *et seq.* for further details.

[2] *Economist*, 4 Sept., 1926.

[3] Perhaps intended to be the first of a series of British official Trade Banks. Mr. McKenna said he would be prepared to consider "something of the same sort" in connection with Russia.

collaborator—the Compagnia Italo-Britannica—was also formed, with a capital of Lit. 100,000,000, half of this being taken up by the British group and half by an Italian group led by the Credito Italiano and including the Banca Italiana di Sconto, the Banca Commerciale Italiana, and the Banca di Roma. The object of the two companies was [1]

> the development of the economic relations between the British Empire and Italy, and the promotion of undertakings in the commercial and industrial field in Italy. They will carry out banking and financial operations which do not necessarily fall within the strict definition of banking as understood in this country.

This also proved an ephemeral project. The Corporation helped to finance the transfer of a certain amount of British shipping to Italian banks, but was caught in the post-War shipping slump with a substantial investment in an affiliated company—Mediterranean Cargo Steamers, Ltd. Its financial operations did not materialize in sufficient quantities to make the partnership with Italian banks worth while, so in 1922 this was dissolved, the Company passing completely into British hands under the name of the Banca Italo-Britannica. At the same time the Government subsidy terminated under an agreement by which the Corporation received the £233,418 paid up to then as a present, free of income tax and Excess Profits Duty. With the aid of the subsidy the Corporation up to that time had been enabled to pay dividends of 5, 4, 4, 4 and 4 per cent from 1917 to 1921, £210,000 in all—that is, it had produced no net profit whatever in the period, and had recompensed itself for a slight annual loss by reimbursement from the Government subsidy before turning this over to the shareholders.

The newly constructed Banca struggled to justify its existence in the succeeding years but in February, 1929, made severe losses which shook public confidence in it. "Considerable sacrifices" [2] were made by the English shareholders, that is, the British Italian Corporation, to

[1] Official statement quoted in *Bankers' Magazine*, 1916, II, p. 313.
[2] *The Times*, 1 Jan., 1930.

help the bank meet its liabilities in full and to carry on its business, with capital and reserves (Lit. 75 millions and Lit. 7,500,000 respectively) unimpaired. Some of the frozen assets of the Banca were passed to a specially constituted Italian holding company, of which the Corporation retained control, and the Banca shares were then unloaded on to a new English subsidiary—the British Italian Holding Company.[1] This in turn sold them to the Banca d'America e d'Italia in October, 1930. Finally on 1 Feb., 1931, the Corporation was absorbed into the Bank of America National Trust and Savings Association.

Prompted no doubt by the same desire as the Government, but also by reasons of more immediate self-interest,[2] the Bank of England was responsible for an attempted extension of London's foreign banking facilities in 1922. This was the foundation of the new Anglo-Austrian Bank. By the outbreak of war in 1914, the Anglo-Austrian, despite its English origin, had become owned and controlled in Austria, and its London office was nothing but a branch of the main office in enemy territory, just as the German banks in London were. The position of the London office [3] then was that its total liabilities to British, Allied, and neutral creditors were £3,678,870, against assets (excluding assets in enemy countries) of £1,763,265. Of these liabilities £2,741,669 was in respect of acceptances signed by the bank and current in the London money market, and £2,461,297 of these were financed by the Bank of England under the Treasury scheme of September, 1914,[4] the advance being afterwards considerably reduced out of specific cover.

At the end of the War, therefore, the Bank of England,

[1] The Bank of England had a right to nominate one director of this concern and three of the others were appointed by Lloyds, the National Provincial, and the Westminster Bank.

[2] Cf. the admission of Sir Ernest Harvey on this point. Macmillan Report, Minutes of Evidence, Vol. I, No. 849.

[3] Enemy Banks (London Agencies), Cmd. 8430, 1917.

[4] Cd. 7633, 1914; H.C. 457, 1914; especially letter from Treasury to the Bank, 27 Aug., 1914, authorizing the Bank to discount not only bills customarily taken but also "good trade bills and the acceptances of such foreign and colonial firms and bank agencies as are established in Great Britain." The scheme was extended by letter of the Treasury to the Bank of 30 Sept., 1914, in Cd. 7684, 1914, Part II.

which under the arrangement, had agreed not to demand repayment of its advances until a year after the declaration of peace, was left with a large claim on the Anglo-Austrian Bank, amounting in 1921 to £1,665,000 including capitalized interest. When upon the break up of the Austro-Hungarian Empire it was proposed to reconstruct the old Anglo-Austrian, now operating in several countries, a suggestion was made that the Bank of England's claim should be discharged by the allotment of bonds and shares in the new institution.[1] Negotiations continued for some time with the object of securing the assent of the Austrian Parliament to the scheme and finally early in 1922, the Anglo-Austrian Bank emerged as an English joint stock company, with a subscribed capital of £1,406,370, of which the Bank of England held a large proportion, nominating ten of the first nineteen directors. The Articles of Association gave the Bank of England majority voting power so long as it held a minimum of £200,000 shares. The twenty-six Czech branches of the old Anglo-Austrian with a very important business, particularly in the Czech sugar industry, were now turned over to the Anglo- Czecho-Slovakian Bank, organized on the same lines with the co-operation of the Czech Government. A major part of the capital of C.Kr. 120,000,000 of this concern was also provided by a British group headed by the Bank of England, and the rest by local bankers; and both of these new institutions opened offices in London in July, 1922. The other branches in the old Austro-Hungarian Empire suffered a like fate; those now in Italy were handed over to the Banca Italo-Britannica and those in Jugo-Slavia went to the Croatian Discount Bank of Zagreb.

Whatever may be said in criticism of the chequered careers of the main two reconstructed banks, it cannot be denied that their projection was a statesmanlike contribution of no small importance to the financial recovery of post-War Europe. The registration of the Anglo-Austrian Bank as a British institution enabled it to open a Head Office in London at a time when no Austrian or German

[1] *Bankers' Magazine*, 1921, II, p. 429. The Bank was reported to be willing to forgo altogether £340,000 of its claim.

bank could do business here, and raised it to the important position of the only London bank directly represented in the countries of Central Europe. Through its branches at Milan and Trieste, and its holdings in the Croatian Discount Bank, it also came to occupy a strategic situation on either side of the Adriatic. The financial assistance which both the Anglo-Austrian and the Anglo-Czecho-Slovakian could bring from their London connections was considerable, and the two banks in fact played the same beneficent part in the flotation of the Czecho-Slovakian State Loans and the Austrian and Hungarian Reconstruction Loans, as the Ionian Bank in the case of the Refugee loans for Greece. They thus undoubtedly increased the effectiveness of the British contribution to European financial reconstruction. Had the loans to Austria produced the expected effect, the British losses on the pre-War Anglo-Austrian acceptances might have been quickly recouped, and a new and reliable channel of international investment cut at a time when it was badly needed.

As it was, the recovery of Austria was delayed for other than financial reasons, and the Anglo-Austrian Bank had to begin and carry on its work under unusual handicaps. Its name was hardly a happy choice for any business in the Austrian Succession States, and its connection with the Bank of England, though an advantage before the Austrian stabilization, became the ground afterwards for suspicion that the Bank of England's policy in Central Europe was not disinterested,[1] and that the Anglo-Austrian was merely a tool for financial exploitation. In London, murmurs against its " unfair " competition with other financial houses (particularly acceptance firms) at home and abroad were occasionally heard. The bank itself found it difficult to transplant British banking practices and trained personnel to an old country normally unused to both and now in the throes of financial disorder[2]; and its attempts to cope with the problems of a hopelessly excessive staff (many of whom

[1] *Economist*, Sept. 4, 1926.

[2] " The impossibility of conducting banking operations from London in a disturbed area like Central Europe was realized from the beginning," says the official account.—*Anglo-Austrian Bank Monthly Review*, Sept., 1926.

had to be granted life contracts under the Anglobank Law), overloaded Boards of Management, extremely heavy pension liabilities, and crushing taxation, were no more successful than those of the other Austrian banks. Its own difficulties, moreover, included exchange fluctuations on the violent scale of the inflationist period.

In the event, both the Anglo-Austrian and the Anglo-Czech Bank made but meagre profits for their shareholders. In 1926, the Anglo-Austrian made over its Austrian branches to the now notorious Credit Anstalt of Vienna for a substantial share interest and an interchange of directors; and later in the year it amalgamated with the ill-fated British Trade Corporation under the title of the Anglo-International Bank. The Anglo-Czecho-Slovakian Bank maintains a separate existence, and was considerably enlarged in April, 1930, by the absorption of two local banks. It has had its full share of the recent banking misfortunes in Central Europe, and in common with other Czech banks, it has had to submit to a complete capital reorganization.

It is perhaps early yet to prophesy with confidence what will eventually become of these officially sponsored banking ventures in Europe. Their record so far does not lend much weight to the view that any considerable improvement in Anglo-foreign banking connections can be expected to follow from official intervention.

Some noteworthy attempts were made by the banks themselves to meet the criticisms of the Faringdon Committee that the British overseas banking facilities were inadequately co-ordinated. These at first took the form of closer and more numerous working arrangements, as those between Williams Deacons, the London & Brazilian Bank, and the Anglo-South American; or those between Barclays Bank and the Colonial Bank; or the very close reciprocal arrangements made between the London Provincial and South-Western Bank and the British Bank of South America, the Irving National Bank (of New York), and the Banca Italiana di Sconto (of Milan), all of which were negotiated before the end of the War. A more important step was taken in 1919, when a group of eight independent banks resolved to

pool their foreign connections in a new institution called the British Overseas Bank. The group included the Anglo-South American Bank, the Dominion Bank of Toronto, Glyn, Mills, Currie & Co., Hoare & Co., the Imperial Ottoman, the Northern Banking Co. (of Belfast), the Union Bank of Scotland, and Williams Deacons. Probably not one of these banks could have supported a continental subsidiary singly. In co-operation, their aggregate foreign business would be sufficient to maintain the British Overseas Bank in full operation in normal times, and the scope of the activities of the co-operating group, both geographically and functionally, was impressively wide, including as it did old-established merchant banking firms, English, Scottish and Irish commercial banks, and overseas banks operating in North and South America and the Levant.

The constituent banks put up £1 million in B shares, and got £1 million more in A shares from the public. B shareholders nominated members of the Governing Committee (the controlling Board of the Bank), whose voting power was proportionate to their shareholding and the amount of deposits kept with the new bank. A shareholders got priority of capital repayment on liquidation, and a cumulative dividend of 6 per cent. In the early years of its existence, the bank's expansion was naturally limited by the very unfavourable times, but it began to form valuable foreign connections from the first, without however venturing to open branches abroad. It made a close reciprocal working agreement with the Banque de Bruxelles, and founded the Anglo-Polish Bank in 1920, on the basis of the flourishing private banking business of Peretz & Co. of Warsaw, and with the co-operation of an influential group of Polish sugar producers. Next year it took a majority interest in the Dorpater Bank of Estonia, and later, a small holding in the Lettish Bank of Latvia.

In addition the bank has done a little of the issue and underwriting business permitted by its Articles, a good deal of acceptance business [1] and a very large amount of foreign

[1] Extended when in 1924 the bank absorbed the London and Liverpool Bank of Commerce, which had a large continental acceptance business.

exchange business, its dealers being amongst the best known in the market.[1] Its deposits, mostly balances of foreign correspondents, have remained small, since the bank has naturally to refrain from competition with its constituents in their own sphere. One of its not least important functions has been the collection of credit information from its various spheres of activity in Eastern and Central Europe, and the supply of this to the constituent and other banks. Six of the original shareholding banks sold out to the Union Bank of Scotland, Williams Deacons and the Prudential Assurance Co. in 1924 and these concerns now control it. Its record makes somewhat more cheerful reading than that of most of the other foreign adventures of British banks in recent years, and the significance in this connection of the fact that the British Overseas Bank originated on private initiative, without any Government or Bank of England support, ought not to be lost.

Outside of Europe, the conditions in the other main business areas of the international banks show a certain similarity. As a result of the War and the subsequent political convulsions, the rise of nationalism in the newly created states, particularly in the Near East, has produced widespread and undisguised antagonism to any further exploitation of the national resources by foreign capital. In Latin America and the Far East, which escaped the direct political influences of the War, the same tendency is clearly at work. Foreign enterprise in general has had to accept this attitude, and resign itself with the best possible grace to further heavy curtailment of its privileges. The position of the foreign banks is merely one illustration of a general distrust of foreign economic penetration which is everywhere manifest. A symptom of this is the prevailing fashion for the creation of new central banks, in countries where such an institution can hardly be anything but an economic ornament, or an attractive plaything for local politicians. More direct evidence comes from the prevail-

[1] The British Overseas Bank was said to have been the operating medium for the private efforts made to bolster up the sterling exchange in 1931.—*Observer*, 30 Aug., 1931.

ing disposition in many small countries to foster the creation of local commercial banks manifestly less efficient than their foreign competitors, and to support them by various kinds of official discrimination.

In addition, in the business areas in which foreign banking operations are still tolerated, competition has become very much keener, partly because nationalist sentiment will not tolerate the provision of international banking connections by any but the home banks. And increased competition in these areas has sometimes led to a general relaxation of banking standards at a time when their strict enforcement would have been most salutary, as in the dangerous years of the frenzied post-War boom, and the depression after it. The banking field is still cumbered by the wrecks of some very important concerns resulting from the excessive optimism of the post-War years and the excessive competition which it engendered.

Amongst the British banks, the Near Eastern group obviously suggests itself as a first illustration of the influence of economic nationalism on international banking relationships. In Turkey, the banking system has recently undergone changes of great significance in this connection. Since 1923 the foreign banks have lost ground heavily to native institutions. In the period from 1923 to 1933, the latter increased from 10 to 46 in number and more than trebled their paid-up capital; so that foreign banking capital in Turkey at present probably [1] represents not more than one-fifth of the whole. Both the initiative and the great bulk of the capital for these new developments have proceeded from the present Government in Turkey, and several local banks have in addition been granted valuable privileges of exemption from taxation and postal fees. These considerations illustrate the rapid growth of financial nationalism in the country, and explain to some extent the popularity of general industrial protectionism, for the native banks are heavily committed in industrial participations.

The Ottoman Bank came through the War with somewhat

[1] As in other Near Eastern countries, the banking figures published in Turkey are incomplete.

diminished prestige. The German Government, realizing the vital importance of the bank in the financial system of the country, had suggested during the War that it should be brought under German control. The Turks opposed this however, but asked the bank to use its issue privileges in order to help finance the War. This the bank refused to do, and in December, 1914, it abandoned for the duration of the War the monopoly of bank note issue granted by its concession.[1]

Its position was not improved when the Allied shareholders resumed ownership on the conclusion of hostilities. The French Government appointed three of its French directors to act as expert assistants in the task of framing the notorious Treaty of Sèvres in 1920, which would have bound Turkey hand and foot, economically and financially, if its provisions had been carried out. Their immediate enforcement was prevented by the depreciation in the Turkish exchange, and the Nationalist movement under Mustapha Kemal ultimately grew strong enough to enforce a complete resettlement under the Treaty of Lausanne of 1923, calling for a much modified form of external control over the Turkish revenues and a position for the Public Debt Administration very considerably inferior to what it had been before the War.

The Imperial Ottoman Bank concession now came up for renewal in 1925, the directors doubtless fearing the worst. As might have been expected, the new position of the bank, though still of great importance, gave it considerably less influence in Turkish affairs than formerly. But in view of its foreign connections, and its activities just after the War, the complete renewal of all its former privileges would clearly have been inconsistent with the improvement in the standing and political independence of the Turkish Government. Thus its new title—the "Ottoman Bank"—drops the prefix "Imperial," its monopolistic privilege of note issue has gone, and its importance as a State Bank has suffered an eclipse comparable to that of the Public Debt Administration. It is no longer to have any voice in the

[1] Blaisdell, *op. cit.*, pp. 185–6.

Government finances or in the preparation of the Budget; it is forced to pay a premium to the Government on its outstanding notes (though these are not very numerous and are mostly in hoards); it is obliged to obtain the consent of the Ministry of Finance to the appointment of its President; and at least 50 per cent of its employees must be Turkish Mohammedans. Large credits were opened by the bank at this time for the Government and the Agricultural Bank.

In 1933, there was a further modification of these privileges by an agreement which extended the bank's concession until 1952. The Government was empowered to call for the redemption of the bank's notes in gold on notice (presumably when the Turkish pound is stabilized legally), and the bank agreed to keep at least £stg. 1 million (one-fifth) of its capital in Turkey, and to maintain at least thirty branches in full operation. An agent of the Ministry of Finance was nominated to the Board in Constantinople.

Commercially, the bank is rather more important than in 1914, especially outside Turkey; and its subsidiaries and branches—in Egypt, Palestine, Iraq, Persia, Jugo-Slavia (the Banque Franco-Serbe), Greece (the British-French Discount Bank), and Roumania (the Bank of Roumania)—are much more extensive. But its old position as Government banker and financial agent to the Turkish Republic will now be taken by the new Central Bank of the Republic, constituted by the Grand National Assembly in May, 1930, and opened in October, 1931. This institution, capitalized with £T.2 millions, has now the sole right of note-issue, will keep the Government accounts, undertake all Treasury operations, and head the Exchange Consortium. Representatives of the Ottoman Bank, and of Belgian and Italian interests in Constantinople, have been appointed to the Board, but the Governor is appointed by the National Government.

The old National Bank of Turkey has been in course of liquidation since 1925, after an abortive effort by the British Trade Corporation to revitalize it at the end of the War. Its place in the Near East has been partially filled by the

Eastern Bank, which spread to Asia Minor from India during the War, when it opened branches in Mesopotamia as bankers to the Indian Government.

The position of the Imperial Bank of Persia has declined in importance in the same way and for the same reasons as that of the Ottoman Bank. After the War, during which Persia was a mere battle-ground for contending armies, the Soviet Government officially cancelled the Persian debt to Russia, and at the same time handed over to the Persians the old Banque d'Escompte, which had played such a prominent part in the pre-War loan negotiations. But the Imperial Bank was not long left in possession of the field. The Soviet Government subsequently founded another Russian Bank in Persia, and in 1925, a nationalist rising having deposed the Shah and rejected the dynasty, the Persians set up Parliamentary institutions and persuaded the Powers to rescind the capitulations. With the conclusion of the system of extra-territoriality, the position of foreigners in Persia became somewhat less eligible, and when in 1930, a currency reform was projected, the Imperial Bank had to relinquish its exclusive rights of note-issue [1] (which then amounted to about £2¾ millions sterling), the Government substituting its own notes.

In Egypt, there are political complications which make the future of the British banks there not quite so clear. It is important to notice in the first place, that the economic strain of the War pressed a considerably more responsible rôle upon the National Bank of Egypt. It was early entrusted with the stabilization of the sterling exchange rate. In August, 1914, its notes were made legal tender, and in October, 1916, the bank was authorized to replace the gold held against its notes by British Treasury Bonds. The growing importance of National Bank notes, the substantial assistance rendered by the bank to the Government during the War, and the successful management of the

[1] In exchange for £200,000 compensation, the abandonment of the Government's claim under the original concession for a royalty on the bank's profits, and a preferential position in the Banking Consortium set up under the Exchange Regulation Act.—D.O.T. Reports, Persia, 1925.

exchange, all combined to impose on the bank many of the responsibilities usually entrusted to a Central Bank.[1] It still declined to give up its commercial business, however, and in December, 1926, it bought the two branches of Lloyds Bank at Cairo and Alexandria, and two ginning factories, also belonging to Lloyds, at Wasta and Benha.[2]

At the same time, the growth of the nationalist spirit in Egypt after the War produced some misgiving in the public mind as to possible embarrassments from foreign control of the National Bank, as well as from foreign control of all the other large banks in Egypt. It was partly in response to this feeling that it was decided that from 1923 all Egyptian *Sociétés Anonymes* should be compelled to have at least one director of Egyptian nationality; and certainly a similar reason was responsible for the foundation in 1920 of the Banque Misr, the first purely Egyptian bank ever created. The Banque Misr started as a small institution with a capital of £E.80,000 only, and a constitutional provision that all the shareholders, the directors, and the staff (with the exception of some technical experts) must be Egyptians.[3] In spite of lack of support from the richer classes in Egypt and very keen competition from the existing well-established foreign banks, this concern has made remarkable progress in its thirteen years of existence, the 1932 Balance Sheet showing a capital of £E.1 million, Reserves of £E.648,024 and Deposits of £E.9,528,526 (including Government Balances of £E1,032,733). The possibility of turning it into a State Bank proper, with a statutory right to the Government accounts, is thus actively canvassed. Although at present only a private bank, it

[1] "La guerre fit connaître à la Banque son vrai caractère de Banque Centrale, vraiment nationale."—Misrahi, *op. cit.*, p. 106.

[2] Lloyds had come into possession of these through their amalgamation in 1923 with Cox's and King's, private bankers and Army Agents, who had opened branches in Egypt during the War mainly for military purposes. These branches secured fresh business when the Bank of British West Africa (partly owned by Lloyds) closed its two Egyptian offices and transferred the business. Considerable losses are reported to have been made by Lloyds, however, through these branches.

[3] Articles of Statutes, quoted by Antonini, *op. cit.*, p. 112. The interests are mostly Mussulman.

is on the list of first-class credit establishments whose guarantees are accepted by Government Departments. Since 1925, the balances of the Provincial Councils have been transferred from the National Bank to the Banque Misr, and the Government has also given it the accounts of municipalities, local commissions and private trusts. It is in close touch with the Ministry of Agriculture and other Government Departments, and handles Government advances on cotton, and loans to co-operative societies. Finally, it has been responsible for the flotation of several small industrial concerns in diverse industries, such as printing, cotton ginning, cotton spinning and weaving, transport, and the Red Sea fisheries.[1] The Government gives preference in official contracts to Banque Misr undertakings, which can also claim exemption from customs duties on imported materials required for their own use.

The National Bank, however, has still the right of note issue under its original concession, its notes supply the bulk of the currency, and its reputation is better established. At the moment, no final decision can be taken on the question of altering the fundamental status of the banks, until the problem of the future relation of the Egyptian currency to sterling has been solved. The recent Committee set up by the Government "to submit the present monetary system to fresh examination with a view to safeguarding the interests of the country in their various aspects, financial and economic" was advised by Sir Otto Neimeyer of the Bank of England not to set the Egyptian pound free from sterling until the world financial situation became clearer.

Meantime, the banking system continues overwhelmingly foreign, represented by important branches of British, Turkish, French, German, Greek and Japanese banks. Even the Banque Misr itself, the only Egyptian bank properly so-called, is very closely connected with the Banque Belge et Internationale of Cairo, which was formed in 1929 to absorb the existing Egyptian business of the Banque Belge pour

[1] D.O.T. Reports, Egypt, 1929, pp. 20–1.

l'Étranger, with support from the Banque Belge itself, the Chase National Bank of New York, and the Banque Commerciale of Bale, Switzerland. All these foreign connections are still reflected in destructive competition and inadequate co-operation amongst the banks, of which the late opening of the Clearing Houses at Cairo (November, 1928) and at Alexandria (May, 1929)—business centres of first-class importance from before the War—is a notable symptom. Faced with the very definite attitude adopted by other Near Eastern Governments on the question of foreign banking penetration, Egyptian politicians can hardly fail to draw the obvious moral. There seems no reason to doubt that they will be equally anxious for greater financial independence and equally sure of being able to reach it by the same route.

Economic nationalism is not confined to countries which find their chief justification for it in events of the War and post-War periods directly affecting them. In Latin America, particularly in the larger states, the cult of economic self-sufficiency, in conjunction with a deeper and more widespread realization of the importance of banks in the national economy, has produced a régime of still further Government intervention in the financial sphere. " Argentina for the Argentines " and similar slogans for the other countries, mean more State regulation, supposedly in the national interest, of *all* foreign business, but especially banking business. The foreign banks have always drawn marked, and sometimes suspicious attention from the uninitiated, by their occasionally very profitable activities. But recent criticism has become detailed and specific. Subercaseaux [1] notes some typical complaints against them in Chile, where he says that " they drain the country of a considerable annual sum in the form of profits " ; that their capital is small in relation to their deposits ; that they do not, in fact, provide very important channels for the inflow of foreign capital ; and that " small industries of very simple organization and technical management, such as banks and insurance companies " have no need for foreign capital in

[1] *Op cit.*, pp. 123–4 ; cf. Lough, *op. cit.*, pp. 86–7.

any case. In Brazil, the recent (1932) exchange regulations forbidding all exchange dealings between banks (including branches of the same bank) have extinguished a former important source of the foreign banks' profits [1] about which there used to be many complaints, as the foreign exchange business in Brazil was almost completely monopolized by these banks before the War. In the Argentine, defensive taxation against the " parasitism " of the foreign banks is suggested,[2] and one local critic asserts [3] that the world-wide connections of the foreign banks are a danger to the national stability. The suggestion is that the banks ought to be prohibited from using Argentine deposits in order to fulfil large obligations contracted abroad through their non-Argentine branches. Each foreign bank ought to introduce a sum of capital *permanently* into the country before it starts business, and none should be allowed to export any such capital subsequently, or any reserves appropriate to it. The indictment, and the suggestions consistent with it, have a familiar sound.

Thus nationalism, jealousy of the foreign banks, and a genuine desire for real reform of the banking system, all combine to produce a greater degree of official intervention in the various countries. Barely a year passes without some new banking law being promulgated by one of the South American States,[4] or some new embellishment being

[1] Before the War, the Government was accused of " carrying on a continual war with the foreign banks " (*Economist*, 18 Jan., 1908). An Exchange Department was started at the Brazilian Treasury, the Government drawing on its gold reserves in London at $\frac{1}{16}d.$ above the foreign banks' rate.

[2] Mexia (*Organizacion Bancaria*, Buenos Aires, 1917, p. 20) thinks the inaction of the Argentine Government on this point inexplicable. " It is difficult to understand our toleration of this parasitism, which sucks out the vital resources of the country without affording any real financial help to it and carries on positively extortionate activities . . . by means of contracts which compromise public faith."

[3] Pinero, *La Moneda en la Argentina*, Buenos Aires, 1921, p. 396.

[4] *e.g.* the banks must keep a certain large proportion of their capital in the country (cf. the proposed Brazilian regulations of 1921, against which both local and foreign banks protested. *Bankers' Magazine*, 1921, I, pp. 227, 571). They must keep all their capital and all their local deposits in the country and " apply the monies to national work " (Peruvian decree of 1921, *ibid.*, 1921, I, p. 747). They must contribute to an Argentine bank pension scheme, controlled by Argentines, irrespective

grafted on to the banking system. The original intention may very likely be above reproach. In many States after the War, the seriousness of currency troubles and the popularity of certain cures then being advocated for them in Europe, turned attention to the appropriateness of a complete overhaul of the banking and currency system.[1] Foreign experts were called in and made reports which usually advocated some form of gold or gold exchange standard, the creation of an independent Central Bank, and the enactment of a general banking law based on the advanced European or American model. Thus, the Argentine, which in 1931 invited Sir Otto Niemeyer to study "the banking organization, monetary régime and stabilization, exchange problems and the law of banking control"[2] was advised to create a Central Reserve Bank with exclusive rights of note-issue, to absorb the functions of the Conversion Office and the Rediscount and Exchange Committees, and to hold the balances of the Government and the reserves of the commercial banks.[3] In Brazil, a Niemeyer Commission which was asked to advise on the reconstruction of the Bank of Brazil "as an orthodox Central Bank upon independent lines," recommended "as an immediate and

of their own arrangements (*ibid.*, 1922, II, p. 323). Each foreign bank must bring into Bolivia a minimum capital of £50,000 of which 20 per cent must be invested in National Bonds, and must further pay a tax of 5 per cent on its gross profits (Lough, *op. cit.*, p. 71. The passage of this law on 3rd Jan., 1914, caused the withdrawal of the Anglo-South American Bank and the Bank für Chile und Deutschland). Banks in the Argentine must have a minimum capital of $1 million gold if foreign, and $1 million paper if local. (D.O.T. Reports. Argentine, 1924, p. 51.)

[1] This account is much indebted to the excellent series of Trade Information Bulletins of the U.S. Department of Commerce on *Latin American Monetary and Exchange Conditions* (particularly Nos. 316 of 1925, 430 of 1926, 775 of 1931, and 810 of 1932).

[2] *The Times*, 29 Nov., 1931.

[3] Niemeyer Report, quoted in *Bankers' Magazine*, July and Sept., 1933. The Banco de la Nacion is incapable of filling this rôle, because it is a predominantly commercial bank. It is true that there was emergency legislation in 1914 permitting the commercial banks to rediscount with the Banco. But the former hesitated to reveal their business to a competitor, and the facilities were principally used by the Government, which was unable by law to borrow more than one-fourth of the Banco's capital and which consequently used to discount Treasury Bills with the ordinary banks, who immediately rediscounted them with the Banco at a slight profit.

urgent provision "[1] the setting up of an entirely separate Central Reserve Bank of Brazil with complete autonomy and freedom from political interference, the Government-owned Bank of Brazil being engaged on a commercial business of such importance that it could not well be abolished or divested of its commercial functions. Dr. Kemmerer, the American expert, has recommended currency reforms and a Central Banking organization in Chile, Peru, Bolivia, Colombia, Ecuador, and Guatemala. Bank reform Acts have been actually passed in Colombia (1923), Chile (1925), Guatemala (1926), Ecuador (1927), Bolivia (1929), and Peru (1931), and the Argentine legislation is on the point of enactment.[2] Mexico undertook a reorganization of the banking system on her own account, after the decade of civil war and financial discredit which followed the Diaz régime, and the Bank Act of 1924 set up a National Banking Commission as the Government agency through which the Minister of Finance could control and inspect the national and foreign banks in Mexico. At the same time the Banco de Mejico, in which the Government is a majority shareholder with strong powers of veto over the acts of the directors, was given exclusive powers of note-issue, authority to regulate exchange and interest rates, and power to rediscount negotiable instruments. Its commercial functions have been handed over to local banks specially created for the purpose.[3]

How will these changes affect the position of the foreign banks? At first sight, those instigated as the result of foreign advice seem to promise well. If banking standards are really raised by statutory regulation, the burden is likely to weigh much less heavily on the foreign banks than on

[1] D.O.T. Reports—Brazil, 1931, p. 13. *South American Journal*, 1 Aug., 1931.

[2] The Brazilian project languishes for want of a foreign loan to capitalize the Central Bank. Experience of these institutions elsewhere in Latin America cannot be said to have convinced the foreign investor of their utility.

[3] This explains in part the tendency for the chief foreign banks to withdraw altogether from Mexico. Cf. *Banker*, June, 1934. The very heavy losses they are generally believed to have suffered on winding up their Mexican business are an index of the violence of the local campaign against exploitation by foreign capital.

their local competitors, whose standards in many cases are distinctly lower. An increase of effective supervision through the new Central Banks may restrict somewhat the scope of the foreign banks' business, but in practice this supervision is likely to be rather loose for some time, owing to the very undeveloped state of the local money markets [1] and the much greater means of the foreign banks, who have easy access to their home centres.

These considerations, however, should prove of less importance in comparison with the principle, implicit or explicit in most of this legislation, that the foreign banks shall have practical equality of treatment, even to the extent of a right of representation on the Board of the Central Bank. For instance, the general banking law of Chile of 1925, which served as a model for the others recommended by the Kemmerer Missions, states (Art. 13) that all foreign banks " shall have the same rights and privileges, and shall be subject to the same laws, and shall conform to the same rules and regulations as domestic banks of like character." [2] The not unreasonable qualifications are that Chilians and foreign creditors in Chile are given preferential claims to the assets of the foreign banks, and that the Superintendent of Banks must be satisfied that the foreign bank's Chilean capital is sufficient for its business. The recommendations of the Niemeyer Mission in the Argentine affect local and foreign banks alike.

All the new plans make subscriptions to the capital of the Central Bank compulsory on all the commercial banks, the proportion varying from 4 per cent to 15 per cent of their capital and surplus. In some, the foreign banks as a body are entitled to elect a number of the directors,[3] not

[1] Particularly the lack of an effective short money market in all of the large commercial centres of Latin America, which, incidentally, is likely to complicate the problem of financial liquidity for the local Central Banks.

[2] " The Commission recognizes the fact that there is some objection to permitting foreign banks to do business in Chile . . . but a country that needs foreign capital cannot afford to drive it away by banking legislation adverse to the establishment of branches of foreign banks." Kemmerer Report in Support of the Bill of 1925, p. 53.

[3] E.g. half as many as the local banks in Chile (1 out of 10), Peru (1 out of 10) and Colombia (2 out of 10), and an equal number in the Argentine (2 out of 7).

only on account of their shareholding, but also for reasons of quite peculiar importance in several of the States. The position is frankly faced in the Kemmerer Report on Chile.[1] The Commission found

> that the most widespread and pronounced fear for the success of the Bank is the fear that it may fall under undue Government influences and be wrecked by politics . . . It is partly for this purpose that foreign banks are given one representative on the Board. Representatives of foreign banks, it is believed, will be less likely to be influenced by politics in Chile than will the nationals in Chile, and this fact will increase public confidence, both at home and abroad, in the bank's ability to resist political pressure.

Although other strong reasons are given for the grant of these unusual privileges to the foreign banks (particularly the appeal that this arrangement might make to foreign investors in Chile), it is clear that very great importance was attached to their assumed ability to help to counteract political influence.

Although it is notoriously dangerous to generalize about a whole continent of States which show economic and political differences on a European scale, it is a well-established truth that banking everywhere throughout Latin America tends to become involved with politics. The prospects of the operation of a currency and banking system or a Central Bank with European standards of impartiality, are therefore in many cases anything but bright and in several quite remote, the chief danger being the transformation of the Central Bank into a mere inflationist machine of the Government. In December, 1931, a conference of the new Latin-American Central Banks at Lima [2] affirmed its adherence to the gold standard and stressed the importance of protecting Central Banks from political interference. It is not without significance that within less than six months Bolivia,

[1] Report in Support of the Bill, p. 51.

[2] From Colombia, Chile, Ecuador, Bolivia and Peru. It is noteworthy that the banks agreed to seek closer relations with the Federal Reserve System, and to move their gold reserves from London to New York. *South American Journal*, 21 May, 1932.

Ecuador, Chile and Peru had either abandoned the gold standard or taken measures to render it ineffective. Clearly the possibility must be faced that, for some time to come, these paper reforms may be at the mercy of political convulsions caused by economic depression. But if they are effectively enforced in the future on the basis of the plans submitted by experienced outsiders, the foreign banks ought plainly to gain very much more than they lose by them.[1]

Aggressive nationalism is no new development in the Far East. But the tenderness of European political consciences since the War has given it a deeper significance. Thus the foreign banks in general have to face ever sharper criticism from nationalist sections of public opinion, bent on spreading nationalistic views on the past activities of these banks and their position in the future. The charge follows familiar lines. The foreign banks keep hardly any of their capital and reserve in the country[2]; they oppose currency reform in China because they make enormous profits out of the present disordered situation; they do not accept the responsibilities of their position as integral parts of the Chinese banking system[3]; they represent the much-disliked Consortium; they have too much freedom in action.

In the matter of the banks' freedom of action, conditions in China to-day are reminiscent of those in many backward countries during the nineteenth century. Under the system of extra-territoriality, foreign banks originating from nations having treaties with China giving extra-territorial rights, may establish branches in the Treaty Ports and in the Legation quarter at Peking, without being subjected to Chinese jurisdiction; they work under the laws of their

[1] Meantime, a not unimportant result of monetary uncertainty is that in times of depression, local deposits tend to gravitate strongly towards the foreign banks. The flow was embarrassingly large in the 1931 crisis in Brazil, for instance, and many accounts were refused by the foreign banks. Cf. U.S. Trade Information Bulletin, No. 810, 1932.

[2] Lien, *Foreign Investments in China*, Shanghai, 1929, p. 86.

[3] The conduct of the foreign banks in the Chinese crisis of 1911 met with some criticism. Dzen (*op. cit.*, Chap. III) refers to the inadequacy of the Chartered Bank's loan of T.500,000 to the Chinese Government to help native banks put out of action by the crisis.

own States.[1] This in practice is less objectionable than it looks. It means that the foreign banks have to conform to standards of bank operation much above those of the local Chinese banks and also above any standards which could be effectively enforced by Chinese law.

Note issue rights, for instance, are much disputed. But the European [2] and American regulations as to the issue of notes, are much more strict than the Chinese where these exist.[3] Thus the foreign bank note issues are on the whole better secured. About 50 million silver dollars of these notes are outstanding, redeemable at their face value at the place of issue, but subject to exchange elsewhere. They are a source of some profit to the foreign banks, but their circulation is usually restricted to the Treaty Ports, as the banks themselves have no direct relations with the interior of China, and the exchange discount restricts their movement. Although these notes could in most cases be redeemed entirely out of existing cash reserves, and although they circulate at par, as against the substantial discounts on the notes of the "official" Chinese banks, their issue is felt to be an infringement of China's sovereign rights.[4] The Hunan provincial authorities, for instance, objected to the issue of notes by the Asia Banking Corporation partly on the ground that "the right of a government to issue paper notes, which foreigners should not be allowed to

[1] An attempt to bring under Chinese supervision extra-territoriality banks operating in the interior, was made by the publication in 1921 (*Peking Leader*, 23 July, 1921, quoted by Lee, *op. cit.*, p. 106) of a series of banking regulations, but these have never been applied.

[2] The note issues of the British banks are made principally under the Colonial Regulations of Hongkong. Ordinance No. 2 of 1866, and No. 6 of 1929, empower the Hongkong Bank to issue up to $30 million of notes, of which $6,666,666 are fiduciary, the remainder being covered by deposits of coin or securities with the Crown Agents. The Chartered Bank may issue $20 million, and with due notice to the Treasury, up to $30 million, of which $7,444,444 is fiduciary. The Mercantile Bank of India may issue notes up to the amount of its paid-up capital. These Hongkong silver dollar notes of the British banks circulate also in Canton and other places in Kwangtung. Cf. Kemmerer Commission Report, 1929, p. 61.

[3] A serious attempt to frame note issue regulations for the local banks was made in 1915. But they were unsuccessfully applied. The new Bank Act of 1931 provides for a 60 per cent specie reserve against all bank notes, but it is a question how far this can be made effective.

[4] Dzen, *op. cit.*, p. 132.

infringe, is a general rule in every country." [1] The Chinese Foreign Office recently maintained that the Government authorities at Harbin could refuse to accept foreign bank notes, as no precedent for this had been established there; and this view was supported by the United States Government. Where the practice is already established, Chinese official opinion seems inclined to preserve it, as when the Vice-Governor of the Bank of China wrote in 1921 to the Hankow branch disapproving of a boycott of Hongkong Bank notes.[2] But general irritation at the rights of the foreign banks in this matter seems still to exist. When the problem of currency reform in China is tackled in earnest, there seems ground for believing that these rights will be lost altogether.

The pressure for more strict local control of the foreign banks was undoubtedly stimulated by the suspension in 1921 of the Banque Industrielle de Chine, with nearly 500 million francs due to Far Eastern creditors, mostly Chinese. This bank had excessively wide powers and too much of its capital became locked up in speculative industrial enterprises.[3] It was a Sino-French concern, and part of the responsibility for its failure lies with the Chinese Government, as well as the French. But in spite of this, and of the further consideration that its business methods were not general amongst its foreign competitors, the distrust caused by its failure, pointed at all foreign banks in general.

The desire for a greater measure of national economic independence, which is at the back of this movement for curtailing the privileges of the foreign banks, has also been unquestionably responsible for the project of a Chinese

[1] Lee, *op. cit.*, p. 103.

[2] "It is reported in the press that some movements have been started by the Hankow inhabitants to eject the notes of the Hongkong and Shanghai Banking Corporation from the local currency. This movement is quite uncalled for and may impair the good feeling between the business communities of these two countries. You are requested to advise the people in the different circles to stop such movements."—Lee, *op. cit.*, p. 105.

[3] The bank had power to finance industry, to collect taxes, and to grant agricultural credits. Cf. *Economist*, 1919, p. 277. For plan of reorganization, see *China Year Book*, 1923, p. 289; Remer, *Foreign Investment in China*, p. 626.

Central Bank, with complete power over the monetary system of the country. Since the beginning of the century. several proposals have been made for some kind of central banking institution for China. The American Financial Commission of 1903, Dr. Vissering in 1912, and Dr. Kemmerer in 1929, each made suggestions based on the economic doctrine of their period.[1] And it was supposed at one time that one of the two "official" banks—the Bank of China and the Bank of Communications (intended to finance the Post Office, and Government railway and steamship projects)—would be converted. But rivalries between the two banks after the Revolution of 1911 (in which the Bank of China was supported by the foreign banks [2]) weakened both; and at all times, the risk had to be faced that each political crisis would precipitate a run on the official bank chosen, due to the known close relation between these banks and the politicians. A Central Bank of China was indeed established by T. V. Soong after the new revolutionary Government had been set up in Canton in 1924, but it was ruined by excessive paper issues. Another attempt was made soon after. One of the resolutions of the Economic Conference in 1928 after the "unification" of China, called for the establishment of a Central Bank with the sole right of note issue, and the present institution bearing that name was thus chartered in October, 1928, and started in the same year by an advance of $20 millions from the Budget. But it is still without the monopoly of note issue necessary for full effectiveness,[3] and if the recommendations of the Kemmerer Commission of 1929 are carried out, it will be replaced by a new institution—the Central Reserve Bank of China—conceived on more up-to-date lines. And the foreign banks will have to give up their note issue rights to it.

Apart from the likelihood of substantial restriction of

[1] Cf. E. Kann, "The Central Bank of China" in *China Year Book*, 1929; also Kemmerer Commission Report, 1929.

[2] Condliffe, *China To-day—Economic*, Boston, 1932, p. 160.

[3] Moreover, it now seems to be cultivating political connections. When T. V. Soong resigned the Ministry of Finance recently, the Governor of the Central Bank of China was appointed to succeed him, but still retains his Governorship.

their business from nationalistic foreign governments, the foreign banks have also to face the unwelcome possibility of more intense international and local competition in the business areas still open to them. For the British banks, the chief regions in which these possibilities are likely to prove most disturbing are the Latin American States and the Far East. The origin of much of this increased competition may again be traced in part to the effects of the War. Banks from neutral countries were able to advance rapidly in areas where the British could hardly spare sufficient capital and energy to hold their own; and if neutral banks were lacking, local institutions, favoured by a growth of nationalist sentiment which has steadily sustained them since 1914, seized the opportunity to strengthen their position whilst international financial interests were diverted elsewhere.

In Latin America, all the banks profited at first from the short period of unprecedented prosperity which followed the opening of the War, due to the demand of the belligerents for food and raw materials. The foreign banks in the Argentine, in particular, made considerable profits from opening large cereal credits on behalf of the United Kingdom, France and Italy; and the Chilian banks did well on the extraordinary rise in the world prices of nitrate and copper, both essential war materials.

But during the whole of the War period, and even in the short boom which followed it, the British banks in South America were feeling the effects of increased competition. The German-South American banks had been much hampered at first [1] and had had to face severe difficulties—which did not end altogether with the War—due to the black lists and boycotts of the Allies. And although they had shown a surprising recovery after 1915, their competitive position did not improve at the same rapid rate as before, and in Chile they fell definitely behind the British. On the other hand, American banks had been quick to seize the opportunities offered in 1914, and their relative position

[1] Being unable to draw freely on their Head Offices, and having to remit bills which their Entente banking agents were not permitted to pay.

improved out of all recognition. Until the War, there were no customary direct quotations of New York exchange anywhere in South America except at Rio and San Paulo. The incoming American banks soon altered this, though in some states, notably in Chile, sterling remained still the most important means of international payment.[1] Gold shipments from the United States, which commenced in 1919, inevitably threw much exchange business into the hands of American banks. The new-comers proved themselves extremely, if not excessively, adaptable, undertaking warehouse, insurance, and other "non-banking" business, and buying and selling goods abroad for their clients on commission. Their experience in many cases cost them dear,[2] but the strongest amongst them struck root, and have continued to do a flourishing business ever since. Before the War, United States trade with South America was very largely financed by British banks. The tendency has been since 1914 for American banks to have secured all of this work themselves.

In face of a marked diminution of business from purely British sources, the British banks had also to see transferred to neutral banks during the War a large part of the enemy country transactions, which they themselves might have carried out, or did carry out, before 1914. Scandinavian and Dutch agencies, formerly operated profitably by British banks, were now taken over by a Buenos Aires branch of the Hollandsche Bank voor Zuid Amerika. The Japanese, whose agency was again a former source of British profit, were now represented by a Buenos Aires branch of the Yokohama Specie Bank. And complaints about the lack of enterprise of British institutions contrasted with their more energetic foreign rivals were increasing in volume. In

[1] "Neither the growth of American trade with Chile since the outbreak of the European War, nor the temporary breakdown of the gold standard in Great Britain, had displaced the sterling bill of exchange as the great medium of foreign financing."—Fetter, *Monetary Inflation in China*, Princeton, 1931.

[2] Cf. especially the case of the Mercantile Bank of the Americas which was organized in 1915, and operated through eight specially formed subsidiary banks in Latin America. It did not survive the post-War slump.—Phelps, *op. cit.*, p. 156.

1918, " while British banking in the Argentine still stands unrivalled as regards deposit business, and meets the needs of the few big British companies admirably, it is not getting anything like its share of what one may term mercantile banking." [1] The British banks would not handle property transactions, collect rents or give Customs guarantees, and would not willingly accept powers of attorney to supervise the carrying out of legal operations. In view of the losses which have occurred in the post-War depression, and which have fallen most heavily on " mercantile " bankers, this conservatism must have been a salvation in many cases; and European and American shippers who over-extended their commitments in the South American markets on the advice of their bankers, might agree with this. But it doubtless lost some business in the boom period.[2]

To some extent, the amalgamation policy of the British banks in South America was a reply to all this criticism. But it was also brought about by the feeling that competition between overseas banks of the same nationality was not in the best interests either of the banks concerned or of the nation; further, by the wish to spread risks geographically, and by the resolve to strengthen the British banks in time for the great struggle for the largest proportion of world trade which all anticipated in the few years after the War. The process began when the oldest and strongest British bank in Latin America—the London and River Plate Bank—made arrangements with Lloyds Bank in 1918 for an exchange of shares. Two £10 shares of Lloyds (quoted at £25½ each) were exchanged for each £15 share of the London and River Plate (quoted at £37½), and Lloyds eventually secured 114,844 of the 120,000 River Plate shares available. Later, in 1923, the London and River Plate Bank arranged an exchange of shares with the London and Brazilian, the second oldest British bank. Two River Plate £25 shares fully paid were exchanged for five £10 shares (quoted at £18 each) in the Brazilian Bank, which was then liquidated, the name of the amalgamated institution being changed to the Bank of London and South

[1] *Bankers' Magazine*, 1918, II, p. 108. [2] Cf. Tables 19–23.

America. Thus for the first time one of the great London joint stock banks took a direct controlling interest in and responsibility for an important British banking connection in South America.

Perhaps the most striking example of the amalgamation policy, however, is the important series undertaken by the Anglo-South American Bank. In 1912, its absorption of the London Bank of Mexico and South America had given it important holdings in the local banks of Mexico, Peru, the Argentine, San Salvador, Bolivia, Chile and Cuba. These holdings did not confer control, and had not been so intended by the old London Bank of Mexico, which was operated more as an investment trust. In the case of the Banco de la Nacion Boliviana, for instance, the Bolivian Government owned 66 per cent of the shares, and there was also a Paris Committee of the bank representing a large French interest.[1] By 1914, the holding in the original Banco de Londres y Mejico had also dwindled to very small proportions,[2] and the holding in the Banco del Peru y Londres could not have been very large in 1919, since the Anglo-South American then opened its own branch in Lima, where the Banco had a very firm footing. At the same time, these various interests had the effect of making the London office of the Anglo-South the channel for a considerable volume of contributory business, and they provided a solid basis for the representation of the bank in every important part of South America except Brazil. The time of their acquisition must also be considered opportune, in view of the approaching opening of the Panama Canal, and the prospects of profit from increased international trade with the West Coast States.[3] But the incoming shareholders exacted substantial consideration. For each London Bank share of £6 (quoted at £14 7*s.* 6*d.*), the Anglo-

[1] Lough, *op. cit.*, p. 75.
[2] *Bankers' Magazine*, 1914, I, p. 218.
[3] The bank's nitrate interests did not stand to gain much from this as nitrate was then exported to Europe in sailing vessels round the Horn, because it could not bear the canal dues. Distances from *Peru* to New York and Liverpool were much shortened, however, to the advantage of local business.

South gave one of its £5 shares (quoted at £10) and £8 in cash.

The next step was in 1918, when the bank succeeded in purchasing the bulk of the capital (240,781 of 261,417 £1 shares) of the Commercial Bank of Spanish America. This concern originated out of the Cortes Commercial and Banking Co. organized in 1904 to unite the business of the London Bank of Central America and Cortes & Co. then carried on at Bogota, Managua, Medellin, Salvador, and Iquitos. It was partly a bank and partly a commission house, making advances to planters and ranchers against standing crops and cattle on the hoof, and shipping and selling local products to European markets. The bank's interests in South America now being much more comprehensive than before, it made a close working agreement with Williams Deacons in Manchester (to which the London & Brazilian Bank also became a party) under which Williams Deacons were to make advances and accept bills on account of the Anglo-South in Manchester, thus providing a direct financial connection between Lancashire and the chief South American markets.

In 1920, a close reciprocal working arrangement was made with the London Provincial and South Western Bank in London, and 99,238 of a total of 100,000 shares in the British Bank of South America were acquired. This bank had certainly a strong hold in the Argentine and Brazil, but the price paid for its shares seems rather high. 2¾ Anglo-South shares of £5 (quoted at £12½, and earning 15 per cent dividends) were given for each £10 share (quoted at £26, and earning 14 per cent) of the British Bank. There was a cash option of £30; and it cost the Anglo-South £58,000 to make good this option by selling the British Bank shares of those who wished for cash to a specially formed syndicate. Had the Anglo-South itself put up the cash, it would have been in the anomalous position of paying £30 cash for a £10 share on which 14 per cent was being paid—an investment realizing 4⅔ per cent. The fact that this purchase was made at the top of the short-lived post-War boom explains a good deal.

In the same year 1920, the Anglo-South purchased 60 per cent of the capital of Edwards y Cia, one of the chief local private banks in Chile, formed in 1852 by the descendants of the Edwards family, who were early British pioneers in the country. The bank had played a great part in local affairs; it was Agustin Edwards who had headed the revolt against President Balmaceda in 1891. And the Chilian Minister in London, Señor Don Agustin Edwards, was, at the time of the Anglo-South amalgamation, one of the principal shareholders. The controlling interest in this institution was bought at 90 per cent premium, the last dividend having been 14 per cent. In 1921, finally, the Anglo-South bought (at a premium of 25 per cent) one-quarter of the Fcs. 50 million capital of the Banque Générale Belge, which had important connections in the wool trade between Belgium and the Argentine.

These amalgamations were subject to criticism at the time, on the ground of their high cost. There must be few of the critics who do not now, in the light of subsequent events, acknowledge their essential wisdom in principle. The recent reconstruction of the Anglo-South was a step brought about, not by the excessive spread of the bank's interests, but by their undue limitation. In 1932, as in 1888, the prosperity of the bank was bound up with that of the Chilian nitrate industry, still the backbone of the bank's business; and the product was losing ground in the world's markets owing to the competition of synthetic nitrate. Reorganization of the industry in 1930, by the formation of the great Cosach combine, failed to secure what was, from the bank's point of view, one of the principal reforms, namely the conversion on the New York market of short-term loans, formerly due by some 30 companies, into long-term bonds of the Cosach concern. The crisis had closed the American money market, and rendered Cosach unable to pay even the interest on its debt to the bank. The situation became worse; rumours of the bank's predicament began to cause large-scale withdrawals of deposits, and the foreign customers of the bank also withdrew their sterling accounts when Great Britain abandoned the gold

standard in 1931. Large losses were unavoidably made by the bank when the various forms of exchange control were instituted in the South American countries on whom, as debtors, the burden of falling prices was pressing with particular severity. The sterling and currency obligations of the bank could not now be balanced in the usual way, if rates were " official " or funds rationed. Its investments and subsidiary interests, many of them bought at the post-War peak of the market, depreciated heavily ; and in face of these combined strains, its reserves proved entirely inadequate.

The immediate crisis was precipitated by lack of liquid resources to meet obligations on acceptances, of which there were £12 millions outstanding in London at the end of June, 1931. The directors approached the Bank of England for help, a strong supporting group of banks was formed, and on 20 May, 1932, an announcement was made that an arrangement had been made with them to save the situation.

The actual scheme provided for the formation of a new company whose shareholders were the group of supporting banks. This company took over £7½ millions of the bank's immobilized nitrate accounts, and £1 million of new and specially created 5 per cent Preference Shares, and assumed in exchange full responsibility for £8½ millions of Anglo-South demand liabilities, most of which were acceptances. The company was guaranteed by the bank against any loss on the nitrate assets, but in order to retain the confidence of depositors, it was agreed that this guarantee would rank only after all deposits and other liabilities of the bank to its customers. The company's Preference shareholding in the bank was to confer voting control until the bank had discharged its liability under the guarantee.

The bank's 1932 Balance Sheet revealed the loss of the whole of the £3,275,000 reserves, the withdrawal of £15 millions of its £40 millions deposits, and depreciation of nearly £1½ millions on its investments in foreign banks and subsidiaries. In addition, a suspense account of £1,414,876 had to be raised to represent depreciation of capital employed abroad. This was the state of affairs even after it became

known that the bank would be supported in London. The reasonable conclusion is that, in the circumstances, the scheme was a most generous one, a tribute alike to the cohesion of the British banking system, and the courageous leadership of the Bank of England. It saved the bank (and incidentally, British commercial prestige throughout South America) from an exceedingly unpromising situation. Whether the nitrate accounts are eventually met or not, and there is still not much ground for optimism on this point, the moral for the foreign banks is plain. The risks of doing banking business in raw material countries, with one great staple product, with violently fluctuating exchanges, great external indebtedness, and alternating periods of bounding prosperity and deep depression, can be best met by spreading them. A policy which replies to competition by amalgamations of diverse banking interests in different parts of the Continent, thus deserves particular economic sanction. It is a policy which competition will probably do much to force on the foreign banks in Latin America in general.

In the Far East, the growth of international banking competition since 1914 has brought about drastic changes in the international Banking Consortium, and intensified the struggle for commercial banking business amongst the various foreign banks. The War put an end to Chinese foreign borrowing altogether, for the time being, as the chief lenders were belligerents and needed all their own resources. At the end of 1917, however, Belgium was promised admittance to the Consortium, then consisting of Great Britain, France, Russia and Japan, and in 1918, at the suggestion of the American Government [1] a group of 31 American banks also joined.

The conclusion of hostilities brought another Re-organization Loan project into view. The negotiations begun in 1919 excluded Belgium and Russia,[2] and had the

[1] Perhaps alarmed by *Japanese* loans to China during the War.

[2] The Banque Russo-Asiatique still retained something of its former official position, however, as the representative of Russian economic interests in the Far East. After the Revolution, the Head Office was

notable effect of enlarging the British group. Still the leading British bank in the Far East, and still independent,[1] the Hongkong Bank took the lead in the discussions, but in order to meet complaints in the City of its monopoly of Chinese financing, it widened the British group by the inclusion of the Chartered Bank of India, the London County Westminster and Parrs Bank,[2] Baring Bros., and Schroeders. Its share in the business was thus reduced to two-thirds of what it had been in the days of independence. "This is a process," wrote the directors to the Foreign Office,[3] "which the bank cannot be expected to extend indefinitely." Lord Curzon thought otherwise; and refused to promise exclusive official support unless the group were made more representative. Rothschilds (who were not interested in Chinese loans), and the British Trade Corporation, were now suggested as possible participators: the Foreign Office replied that Lloyds Bank, Brown, Shipley & Co., the Eastern Bank, M. Samuel & Co., and Birch, Crisp & Co., had all asked for inclusion, and pointed out that all five of the great Clearing Banks ought to be approached,[4] if the group were to be made really representative. But the Hongkong Bank steadily refused to extend the membership, contending that to throw it open to any British financial house of standing would make the whole scheme "impracticable and unworkable."[5] A small group might certainly draw public criticism of the Government which

transferred to Paris. In 1924, the Soviet Government was reported to have acquired a dominating interest in the bank, in order to regain power over the Chinese Eastern Railway, which legally belonged to the bank. Cf. *The Times*, 14 July, 1924.

[1] Even in 1918, in the great days of English bank amalgamations, the directors were "firmly of opinion that the bank should maintain perfect freedom, and in no way barter its liberty of action, or merge its identity in that of a partner. We believe that all the advantages claimed for amalgamations can be secured without any sacrifice of our independence by friendly alliances and working arrangements."—*Annual Report*, 1918.

[2] This bank, alone of the "Big Five," was included, as London agents of the Hongkong Bank. Parr's Bank, before the amalgamation, had shared an extensive Japanese loan business with the Hongkong Bank, whose London manager, Sir Ewen Cameron, was elected a director of Parr's.

[3] Letter dated 21 March, 1919, Cmd. 1214, 1921.

[4] *Ibid.*, letter of Foreign Office to Hongkong Bank, 20 May, 1919.

[5] *Ibid.*, letter of Hongkong Bank to Foreign Office, 4 June, 1919.

should give it exclusive support, but this was held to be a reasonable price to pay for increased effectiveness. Neither party convinced the other; Lord Curzon still thought the group, as then constituted, insufficiently representative, and would only promise to inform the other partners in the Consortium that the British group should "on the strength of their established and predominant position in China" be regarded as the representative British member of the Consortium, though there could be no guarantee of exclusive Government support.

It is noteworthy that these difficulties were solved by the French group (in which the Banque de l'Indo-Chine occupied a similar position) in much the same way. In the case of America, where enthusiasm for Chinese loans was difficult to raise in any case, and in Japan, where the great Japanese foreign bank—the Yokohama Specie—was directly supported and controlled by the Government, the trouble did not arise. A common formula was, however, eventually agreed upon, which ruled out exclusive Government backing for any of the national groups as then constituted, and yet involved the collective support of the Consortium Governments in case of competition for any specific loan contract.[1] And after Japanese fears of the invasion of her special rights in Manchuria and Mongolia had been quieted,[2] the agreement was finally signed in October, 1920. It provided for the equal sharing of all existing and future contracts relating to Chinese public loans or loans to companies which were Government owned or guaranteed.

The Consortium now made a public declaration of its policy, after a conference at Paris in 1923, and this fairly summarizes the present position.[3] Its object was "the substitution of international co-operation for international competition in the economic and financial affairs of China." It was not designed as a permanent organization, but rather

[1] Field, *American Participation in the Chinese Consortiums*, Chicago, 1931, p. 154.
[2] Cf. Clyde, *International Rivalries in Manchuria*, p. 289.
[3] The full Declaration quoted in *China Year Book*, 1924.

as a temporary bridge by which China may be assisted to pass in comparative safety through the difficult period of transition from an unsettled to a settled state of government . . . It has been by their [the Groups] consistently refraining from lending that the principal success has been achieved in encouraging the utilization of native savings before recourse is had to foreign capital, and in arresting the profligate expenditure which was heading the country straight for bankruptcy. . . . By putting a stop to the menace of financial penetration arising from indiscriminate and unproductive foreign borrowings, the Consortium is helping to conserve the integrity of the country.

The banking groups described themselves as constituting the chief barrier between China and the "spheres of interest" policy of the nineteenth century, and as desirous of helping China till she could borrow on her own credit without any supervision. Till then, "the Consortium must remain intact and with the approval and support of the Governments, continue to perform with patience the functions assigned to it." Membership then included 37 American banks, 9 French, and 17 Japanese, the British group consisting of the Hongkong Bank, the Chartered Bank of India, the Westminster Bank, the British Trade Corporation, Baring Bros., Schroeders, and Rothschilds.

Up to the present, no large loans have been floated by the Consortium,[1] partly on account of the internal disorder, but more especially on account of the intense hostility of the Chinese to it,[2] on the ground that it represents a financial monopoly whose demands it would be very difficult to disregard, and whose machinery could be used for political ends. In view of recent events in Manchuria, Japanese membership is, at the moment, in any case an insurmountable obstacle. On any long view, however, the Consortium principle cannot be so summarily dismissed. It might do much to protect China from bankruptcy through extravagant capital imports, in the fashion set by Turkey in the nineteenth century, and it is much less likely to undertake political manœuvres than a number of separate and fiercely

[1] Several outside loans were contracted between 1920 and 1932, but "on terms which patriotic Chinese bitterly regret."—Condliffe, *op. cit.*
[2] Field, *op. cit.*, Chap. XI.

competitive national banks would be. On the conclusion of peace in China itself, and the revival of large-scale foreign lending, it seems not unlikely that the China Consortium, if it can convince the Chinese of its good intentions, may get the chance to demonstrate a practical solution to one of the greatest problems in international banking. But in the short run, it is clear that its fate depends upon the policy of Japan.

In the field of commercial banking business, the British banks held the dominant position by 1914. They were national in fact, as well as in name, control and ownership being overwhelmingly in British hands. Of the capital of the Hongkong Bank, for instance, less than 5 per cent was in enemy hands at the outbreak of war.[1] They had also come through some perilous trials without serious hurt. They had survived the fall in silver at the end of the nineteenth century, the Chinese financial panic of 1911, and the world crisis of 1914. The only casualties of note amongst them since the beginning of the century were the old Agra Bank, which died a natural death in 1900, and the National Bank of China, a small and not very profitable concern liquidated in 1911.

At the end of the War the British group still remained intact,[2] but faced increased competition. The Deutsche Asiatische Bank in Shanghai had been closed when China came into the War, and the Yokohama branch closed in 1916 by the Japanese Government.[3] When, after the War this bank restarted its business, it clearly could not hope for its former scope. The stoppage of the Banque Industrielle de Chine also reduced numbers, though it brought all the foreign banks in China into disrepute, caused substantial runs upon many of them, and diverted many native deposits back to native banks. But in any case these defections were more than made up by the growth of native banks after 1914, and the further multiplication of foreign

[1] Annual Report, 1915.

[2] Save for the negligible failure of the London, Singapore and Java Bank, a planter's bank of £50,000 capital formed privately in 1912.

[3] On suspicion of being a party to the export of gold coin from Japan for the benefit of Germany.—*Bankers' Magazine*, 1916, II, p. 561.

banks,[1] particularly Japanese, which in numbers and capital now take the first place. Some of these new foreign concerns, in which Chinese as well as foreign capital has been interested, seem to have been established in order to serve the political ends of their Chinese promoters. The Sino-American Bank of Commerce, for instance, of which the Chase National Bank of New York was at one time the largest American shareholder,[2] and the Sino-Italian Bank, founded in 1920, are reported to have been promoted by Chinese ex-Ministers, with the support of military leaders and foreign friends.[3] Some again, seem to have been established prematurely. For example, the Park Union Foreign Banking Corporation (subsidiary of the National Park Bank of New York and the Union Bank of Canada) started in Shanghai in 1919 and withdrew in 1922. The Asia Banking Corporation (subsidiary of the Guaranty Trust Company of New York) was organized in 1918 and liquidated in 1924. But several of the newer banks remain, including two small additions to the British group, the P. & O. Banking Corporation and the E.D. Sassoon Banking Company. The threat to the established position of the original British group is as yet not so serious as in other parts of the world; but the growth of competition has put the older British banks very much on the defensive.

[1] See Table 28.

[2] Lee, *op. cit.*, p. 86. Control passed to the Chinese in 1923.

[3] "There is at present a strong competition between the Americans and the Japanese for the establishment of banks in this country, and the situation seems to be that without the support of one or two banks, no important and high Chinese Government official can hold his post or fight against his political enemies."—*Bankers' Magazine*, 1920, I, p. 713.

CONCLUSION

THE British overseas banks are the oldest, most numerous, and most widely extended of any. Established at a time when British foreign trade and foreign investment were rapidly developing, they have found their way into all parts of the world where money can be lent with reasonable safety and advantage. Their business has carried them into the developed countries of Europe, the gradually disintegrating States of the Near East, the new and vigorous, if somewhat primitive Latin-American Republics, and the rich and busy trading centres of the Far East. Their services to commerce have ranged all the way from the direction of long-term capital exports to the finance of the foreign trade of their own and other countries. The numerous and severe difficulties of their business and the long period over which their operations have extended have served to weed out many of the weaklings from amongst them, and those which now remain have in most cases a long and intimate association with their particular areas, and a stake in their economic life, which is of great importance to this country and is likely to be jeopardized only by the fiercest economic storms.

The foregoing chapters serve to emphasize some of the general characteristics of these banks, and offer a basis for a more or less informed guess about their probable future. It should be plain at the outset, however, that any general statement about them must be framed in the broadest possible terms, because the geographical areas in which they work differ widely, and the functions they are called on to perform, though similar to begin with, now vary much in detail in accordance with the political and economic conditions of their several fields of operation. In Egypt, for instance, the National Bank of Egypt stands at the head

of the banking system and assumes (unofficially) the responsibility for its safety and liquidity. In the Argentine, the Anglo-South American Bank is merely one of a number of competitive foreign banks doing a short-term deposit banking business. In China, the Hongkong Bank specializes on foreign exchange operations and acts as the recognized channel for British long-term investments in the Far East. Thus although the main business of all these banks could be shortly described as the transference of capital to more profitable centres, the ways in which they do this, and the uses to which the money is put, show sufficient variation to enforce great caution in drawing any general conclusions.

The chief characteristic worthy of some special attention at the present time, is that the banks owe very little to Government initiative or assistance. Where banks have been officially sponsored, as the British Trade Corporation, or officially inspired, as the British Italian Corporation, the results have not been remarkable. When all the overseas banks were officially regulated, the record is better but inconclusive. The system of Government supervision under which the original banks were chartered early in the nineteenth century, was really designed to regulate banks in the British colonies, and even in these cases it threw responsibilities on the home Government which proved eventually an impracticable burden. Its application to the very different conditions in foreign countries involved in addition the troublesome anomaly that it was clearly not in the power of the British Government to confer rights, such as those of note-issue, which were to be exercised outside its jurisdiction. As a means for improving the business standards of the international banks, the influence of the Chartered Banking Regulations was not so salutary as their terms might suggest. They were ignored with impunity by the Bank of Egypt and the Oriental Bank, if not by many others of whose neglect there is no direct evidence. They were avoided by the Imperial Ottoman Bank, which sought reincorporation abroad in 1863 rather than submit to their restrictions; and the main advantage of incorporation by Royal Charter, namely limited liability for the bank share-

holders, was conferred on all new joint stock banks generally by statute in 1858. The retention of their charters by the old banks after this was due largely to their prestige value and the indefinite (and quite misleading) hint of Government support they gave—a particularly valuable attribute in the undeveloped countries of the Near East. But by this time the Treasury and other Government Departments were finding it impossible to supervise the chartered banks adequately, and when the Ionian Bank relinquished its charter in 1882, the system for all practical purposes was moribund. It applied to only a small proportion of the banks, and it was in effective operation for such a short period that no substantial modification is necessary to the assertion that the British overseas banks are typically the product of unrestricted private enterprise.

This is not to deny that some of the banks have at various times enjoyed a measure of Government support, or submitted to a measure of Government control, for political reasons; in which connection the Imperial Bank of Persia, the National Bank of Turkey and the Hongkong Bank spring naturally to mind. Moreover, this official support has at times been exclusively reserved for one institution, as the history of the first two banks above-mentioned shows. On the whole, however, British official policy, in contrast with that of other countries, has been to intervene only with reluctance, and even then to avoid promising exclusive Government support for any one group. The attitude of Lord Curzon to the half-hearted proposal of the Hongkong Bank to widen the British section of the China Consortium is a fair indication of a firm principle invoked again and again in the history of the overseas banks.

This principle of course raises the general question of the amount and the kind of political influence that was brought to bear on the business policy of the banks. In practice, the close personal connection between banking and political personages in the England of the nineteenth century might be expected to count for much, though the position of Austin Layard, for example, at first Chairman of the Ottoman Bank, and afterwards Under-Secretary for Foreign Affairs and

British Ambassador at Constantinople, is exceptional, and caused adverse comment at the time. The political connections of concessionaires were inevitably deciding factors in the distribution of official favours, as, for instance, those between Layard and Lord Stratford in the case of the Ottoman Bank, or Anderson and Consul-General Wood in the case of the London Bank of Tunis. The international banks have sometimes acted as the mouthpieces of Government, though it is not without significance that the clearest example of this is the domination of the Imperial Ottoman Bank by the *French* Government, and not the British, which on the basis of the national constitution of the bank was *prima facie* entitled to an equal voice. In at least one case amongst the British banks (the Imperial Bank of Persia) there is clear evidence that the bank was openly regarded as a mechanism for regulating foreign investment in harmony with a forward foreign policy in the area concerned. Conversely, there are instances of official pressure being used to safeguard important international banks whose interests in a foreign country were thought to be endangered; though in the one case for which fairly full evidence is available, the bank's bullion had to be confiscated and its manager imprisoned (at Rosario in 1876) before the British Government would move. The comparative solicitude of the French Government for the welfare of the deposits of the Crédit Foncier in Egypt before the Dual Control, or for the satisfaction of the depositors of the Banque Industrielle de Chine on its failure more recently, stand in marked contrast to this, even after allowing for obvious differences in conditions. For the three most important failures amongst the British overseas commercial banks in the last hundred years, namely the Agra Bank of 1866, the Oriental Bank of 1880, and the Bank of Egypt of 1912, the British Government did nothing whatever; and even in the case of Barings in 1890 and the Anglo-South American Bank in 1931, the initiative was taken by the Bank of England, and the risk by a syndicate of commercial banks.

Whether their political connections were more or less intimate than these facts suggest, there is no doubt that

since the revelations of pre-War diplomatic history, popular suspicion of the international banks has deepened into stiff prejudice, and the banks have earned themselves a bad name from which they will long suffer. Although much of this is justifiable on the ground that many of them have been used as political pawns in no very good cause, it is clear that current criticism is beside the mark when it imputes the blame to the banks themselves or to the capitalist system in which they work. The real fault has been aggressive nationalism, which is not amenable to any economic reform, however far-reaching.

In the course of development from the small beginnings of the early nineteenth century to their present status, the banks passed through many important changes of organization and function. Originally, all international banking relationships were based on co-partnerships and family businesses, the first British incorporated bank to begin operations in a foreign country being the Bank of Egypt of 1856. Since then, the spread of the joint stock form of organization has turned the typical British international bank into a public limited company, established in London, and connected with several foreign countries by means of full bank branches instead of interlocking partners or shareholdings by the parent firm. Full control is normally exercised from London, and even where the Board of Directors sits elsewhere, as in the case of the Hongkong Bank and the National Bank of Egypt, there is a very strong London Committee, with important advisory functions. In their business activities also, the banks show many notable variations from the prospects in the minds of their original promoters. The Turkish group, formed on the break-up of political isolation in the Near East, looked to the financing of the extravagance of Eastern potentates for its chief profits; the South American banks followed in the wake of the new railways: and the Far Eastern banks hoped to step into the shoes of the East India Company, when it relinquished its commercial business. Some of these staples soon ceased altogether to yield profit, and others did not provide sufficient to accommodate the series

of hothouse financial creations of the early sixties, which were produced by the joint effect of the reforms in the joint stock banking code and the boom in British capital exports for public works. There was a period of greatly increased competition, followed by the inevitable crop of failures, the survivors accordingly diverting their business activities away from the channels indicated by the costly mistakes of their unsuccessful competitors

From the early years of the nineteenth century, the characteristic specialization of the London Money Market has been reflected in the almost complete independence of the overseas banks, which were originated and have been maintained without any direct support from the great deposit banks. This independence has been less marked since the War, and the tendency since has been for the deposit banks to expand both geographically and functionally, and to assume direct responsibility for the overseas banks themselves in certain significant cases in South America and Egypt. But unless there occurs a radical change for the worse in business conditions, this tendency should now meet with some severe checks. There is no doubt that the larger international banks (particularly of the Far Eastern group) are well accustomed to carrying shortened sail in a trade depression, and can maintain their independence for a long period under unfavourable economic conditions. The lesson of the present depression is moreover a plain warning to " department-store " bankers, who would undertake with one institution any kind of business, long- or short-term, foreign or domestic. It would thus be rash to foreshadow any further important absorptions, even if the requisite official consent of the Treasury should prove to be easily obtainable.

The probable future of the international banks, whether as independent units or as affiliations of the " Big Five," raises some awkward questions. In the long run, the banks will have to face the unpalatable fact that the growth of nationalistic feeling in the economically subordinate countries will set a definite limit to the expansion of their business. Legal restrictions are liable to increase in the near future,

partly from a genuine desire for monetary reform, but partly in order to discriminate against foreign banks so as to limit exploitation of the national resources by foreign capital. From any restrictions imposed by foreign Governments in order to improve the local monetary systems, the international banks have nothing to fear but much to gain. Banking reforms would, in the long run, be equally welcome. The business standards of the British overseas banks themselves are high, and there is everything to be said for forcing their local competitors to adopt them also. Measures designed to reform the scattered and unorganized money markets, particularly in Egypt and the South American countries, can only bring ultimate good to all the foreign banks. The development of central banks on sound lines is an essential long-run improvement also, though it may mean the present sacrifice of many privileges enjoyed by the banks. The new central banks will presumably aim at regulating interest rates, reserve proportions, note-issuing rights, and possibly foreign exchange operations, to mention only a few of the supervisory activities to which modern practice commits them. If their regulation is impartial, the competitive position of the international banks will be unaffected. If it is discriminatory, it will be open to the same sort of objection as a protective tariff, though the political weight attaching to such objections is notoriously small at present

The prospect of increased competition for the banks has also to be faced, whether it originates from the local banks or from the international banks of other nations. To a large extent, amalgamations, as in the case of the Anglo-South American Bank, are the most obvious reply to this. Where State-aided competition has to be fought, they may of course prove inadequate. And if economic nationalism continues to be interpreted, as at present, to mean greater obstacles to imports and greater facilities (including easier credit) for exports, then the plight of the British overseas banks may well become difficult. For this problem, some sort of political action to enforce reciprocal concessions is the solution suggested by experience. But the increasing

awareness amongst political authorities all over the world of the vital importance of banks in the modern economy, forbids any very large expectations on this score, apart altogether from the technical difficulties of reciprocity as between two countries where the legal conditions of bank operation are very different.

At bottom, the position of the banks depends most on general business and financial conditions in this country, over which they themselves have little control. If Great Britain's share in world trade and international investment continues to be a very large one, the best safeguard for the future of these banks is assured. The provision of a relatively cheap and wide discount market is hardly less necessary; this is the attraction which drew international banking business to London before the War, and it is no less essential, though much more difficult to maintain at present.[1] The flight of acceptance business to other centres on account of cheaper money rates would in time detach the international banks from London as well. Relatively stable sterling exchange rates over the large parts of the world served by these banks are clearly a vital condition for their continued existence. The fact that there were no failures when Great Britain abandoned the gold standard in 1931, is no inconsiderable tribute to their stability in face of what must have been a very sharp contraction of their deposits, both sterling and currency. And their influence in recruiting for the sterling area and in maintaining it after formation is a further not unimportant vindication of their strength. But without some form of real international exchange stabilization, their activities must obviously be very much restricted.

In any case, it is to be expected that the local financial systems in the less developed countries will eventually become more mature and self-supporting. As this occurs, no doubt the tendency for the overseas banks gradually to lose their connection with their home centre will become

[1] On this point, see the important evidence of bankers (Messrs. Goodenough, Hyde and Rae) and discount brokers (Mr. Foa and Sir Robert Kindersley) before the Macmillan Committee of 1931.

apparent; and in the course of time, as the subordinate countries rise in the material scale, control of the British banks operating in their midst will gradually pass into local hands. But the record of their origin and early struggles will always possess an economic significance to which insufficient credit is sometimes given in current discussion; this account may help to reveal the more striking aspects of it.

TABLES

TABLES

1. International Banks of the Principal Trading Nations in 1932

	Number.	Branches.				
		Europe.	Middle East.	Far East.	Latin America.	Elsewhere.
English . . .	32	62	224	73	98	5
German . . .	7	11	5	5	36	—
French . . .	21	103	44	23	35	2
American . .	11	53	—	19	74	—

2. Foreign Banking Offices or Representatives (*excluding Private Banks*)

	London.	New York.	Paris.	Berlin.
1914	31	19	19	3
1920	42	35	36	4
1933	61	34	33	9

3. Progress of the British International Banks 1850–1933

	Number.	Capital (£1,000's).	Reserve (£1,000's).	Deposits (£1,000's).	Foreign Branches.				
					Europe.	Near East.	South America.	Far East.	Other.
1850	1	754		1,652	—	—	—	3	—
1860	7	4,654	520	13,052	—	6	—	5	—
1870	17	11,523	1,397	34,681	12	9	14	17	1
1880	21	16,810	7,666	43,890	6	30	17	19	3
1890	24	17,325	4,648	77,777	14	29	34	30	8
1900	25	16,499	6,202	83,888	10	27	96	37	10
1910	24	19,783	13,609	135,429	10	147	100	45	6
1920	30	38,480	28,333	421,974	54	187	108	65	8
1933	32	42,561	31,552	289,371	62	224	98	73	5

4. Movements in Representative Domestic and Overseas Bank Shares, 1863–7

	1863 Quarters.				1864 Quarters.				1865 Quarters.				1866 Quarters.				1867 Quarters.			
	1st.	2nd.	3rd.	4th.	1st.	2nd.	3rd.	4th.	1st.	2nd.	3rd.	4th.	1st.	2nd.	3rd.	4th.	1st.	2nd.	3rd.	4th.
Bank of Egypt (£25 paid up)	26	29½	27½	27½	26	28½	28½	29	31½	31	30	30½	32	27	30½	29½	33	33	36	34
Ottoman (£10 paid up)	—	—	18½	18	18	20	17	16½	17	16½	15½	16	13½	8¼	8½	9	9½	8½	8½	9¼
London & Brazilian (£40 paid up)					(40) 58	58	48	45	45½	45	44	44	(45) 47	37	35½	35½	31	27	26	20
London & River Plate (£40 paid up)			44	51	50	53	55	46	50	48½	50	53	53½	44	47	48¾	47	46	46	46
Bank of Hindustan (£25 paid up)			23½	28	31½	32½	34	28¼	29	20	19	20	18½	6	4	1½		Failed		
Chartered Mercantile (£25 paid up)	42	50	55	72	65	69½	66	60	59	50½	48	47	47	32½	36	35	34	30	28½	28
Agra Bank (£25 paid up)	—	—	—	—	—	—	—	67¾	64	62	58	57½	56	5	Failed					
Oriental Bank (£25 paid up)	56½	55	57	59	60	64	60	56	57½	53½	52½	51½	51½	38½	43	43¾	44	42	43½	44¼
Anglo-Austrian Bank (£6 paid up)					6	7	7	6¾	7	7¼	7	6¾	6¾	4½	5	6⅛	6½	7½	8½	8½
European Bank (£10 paid up)					9½	13½	14	(10½) 9	14½	12½	11½	12½ (20)	12¼	3 (25)	3	1½				
English & Swedish (£15 paid up)						15½	16	14	13½	11½	16	15	15	13	13	13	14	15	16	16
London Joint Stock (£10 paid up)	35	36	35	36½	38	46½	51	47	48½	49	48½	50½	49	43½	44	42½	43½	42½	41	37½
City Bank (£50 paid up)	92	100	112	112	113	134	137	118	119	112½	109	111½	106	(10) 16½	16½	15½	14¼	13	13¾	13
Union Bank of London (£12 paid up)	33	35	35	39	42	57½	53	51	54	53	53	53½	53	44½	46	44½	45	42	39	36
London & Westminster Bank (£20 paid up)	80	77½	77	80	82	95	97½	95	96½	95	96	97	96	92	94	93	96	93½	70½	69

Note.—Figures in parentheses indicate changes in the paid-up value of shares below.

5. INTERLOCKING DIRECTORS OF THE INTERNATIONAL BANKS—1870

J. B. Moore	Bank of Egypt, General Credit & Discount Co.
G. T. Brooking	English Bank of Rio, London Joint Stock Bank.
M. H. Clayton	National Discount Co., London Bank of Mexico, Alliance Bank.
Baron H. de Stern	International Financial Society, Bank of Roumania, London and San Francisco Bank.
R. Diggles	Imperial Bank, Bank of Egypt.
J. Alexander	Imperial Ottoman Bank, Bank of Roumania.
Sir W. R. Drake	Imperial Ottoman Bank, Bank of Roumania.
H. V. East	Bank of Australia, London and River Plate Bank, City Bank.
J. Elin	Alliance Bank, London and River Plate Bank.
J. Flemmish	International Financial Society, London and San Francisco Bank.
J. Fraser	Chartered Bank of India, London Financial Association, London Bank of Australia.
R. H. Glyn	Bank of British North America, Agra Bank.
J. Hackblock	London and River Plate Bank, London Financial Association, City Bank.
F. Harrison	London and County Bank, London Bank of Mexico.
G. A. H. Holt	London and River Plate Bank, English Bank of Rio.
J. Jones	Chartered Bank of India, City Bank.
J. Knowles	English Bank of Rio, London Joint Stock Bank.
D. Larnach	Chartered Mercantile Bank of India, Bank of New South Wales, London Joint Stock Bank.
Sir J. Lubbock	Anglo-Italian Bank, Bank of Montreal.
J. M. Mackay	London Bank of Mexico, Australian Joint Stock Bank.
A. Mackenzie	Oriental Banking Corporation, National Discount Co.
W. MacNaughten	Chartered Bank of India, City Bank.
C. H. Mills	Imperial Ottoman Bank, Union Bank of Australia.
J. S. Morgan	International Financial Society, London and San Francisco Bank.
J. R. Morrison	Bank of Otago, Chartered Bank of India.
C. G. Nicol	Chartered Mercantile Bank of India, London Joint Stock Bank.
A. P. Petrocochino	Imperial Bank, Ionian Bank.

L. M. Rate	Anglo-Austrian Bank, Imperial Ottoman Bank, International Financial Society.
T. S. Richardson	New Consolidated Discount Co., London and River Plate Bank, Midland Banking Co.
J. M. Robertson	Chartered Mercantile Bank of India, Bank of British North America.
F. Rodewald	English Bank of Rio, London Joint Stock Bank, London and San Francisco Bank.
F. W. Russell	National Discount Co., London Bank of Mexico.
R. Ryrie	Commercial Bank Corporation of India, London Joint Stock Bank.
J. Stewart	Agra Bank, National Provincial Bank of England.
Sir W. Tite	London and Westminster Bank, Bank of Egypt.
J. Walker	Oriental Banking Corporation, Union Bank of London.

6. INTERLOCKING DIRECTORS OF THE INTERNATIONAL BANKS—1933

Sir C Addis	Hongkong Bank, Bank of England.
F. R. S. Balfour	Anglo-South American Bank, Bank of Montreal.
Peter Bark	Anglo-International Bank, Anglo-Czechoslovakian Bank.
Sir C. S. Barrie	Mercantile Bank of India, National Bank of Scotland.
E. W. H. Barry	Anglo-International Bank, Ottoman Bank.
E. B. Bromley-Martin	Martin's Bank, Eastern Bank.
C. A. Campbell	Hongkong Bank, Westminster Bank.
C. F. Campbell	Chartered Bank of India, National Provincial Bank.
S. Christopherson	Anglo-French Banking Corporation, Midland Bank, Standard Bank of S. Africa.
A. G. M. Dickson	Ionian Bank, Anglo-International Bank, Anglo-Czechoslovakian Bank, Agricultural Bank of Egypt.
R. H. Foa	Barclays Bank, British Bank of South America.
A. C. D. Gardner	British Overseas Bank, Union Bank of Scotland.
A. C. Gladstone	Bank of England, Ottoman Bank.
Sir H. Goschen	Chartered Bank of India, National Provincial Bank.
Viscount Goschen	Ottoman Bank, Westminster Bank.
Sir W. E. Granet	Lloyds Bank, Ottoman Bank.
C. J. Hambro	Hambros Bank, Bank of England, Mercantile Bank of India.

H. C. Hambro . .	Hambros Bank, Westminster Bank.
Sir J. Hewitt . .	National Bank of India, Ottoman Bank.
Lord Hillingdon .	Ottoman Bank, Glyns, Union Bank of Australia.
N. C. Hird . .	British Overseas Bank, Union Bank of Scotland.
R. M. Holland-Martin	Martin's Bank, Anglo-French Banking Corporation.
Lord Inchcape . .	National Provincial Bank, P. & O. Bank, Royal Bank of Scotland.
A. A. Jamieson .	Chartered Bank, Ottoman Bank.
F. A. Johnston .	National Provincial Bank, P. & O. Bank.
Sir H. A. Lawrence .	Ottoman Bank, Anglo-International Bank, Glyns.
Sir O. Niemeyer .	Anglo-International Bank, National Bank of Egypt.
Colonel S. C. Peel .	Westminster Bank, National Bank of Egypt
Lord Revelstoke .	Baring Bros., Hongkong Bank.
Sir Felix Schuster .	Banca Italo-Britannica, National Provincial Bank.
The Earl of Selbourne	Bank of British West Africa, Lloyds Bank, Standard Bank of South Africa, P. & O. Bank.
Hon. Alex. Shaw .	Bank of England, P. & O. Bank.
H. J. A. Smith .	Hambro's Bank, British and Continental Banking Co.
Sir A. Stern . .	Stern Bros., Ottoman Bank.
Sir E. Stern . .	Stern Bros., Midland Bank.
F. A. Szarvasy. .	Anglo-French Banking Corporation, British, Foreign and Colonial Corporation, Martin's Bank.
Sir M. C. Turner .	Chartered Bank, P. & O. Bank, Westminster Bank.
C. F. Whigham .	Morgan, Grenfell, Hongkong Bank.

Progress of Certain Important International Banks

7. *The Hongkong and Shanghai Banking Corporation* ($1,000's silver and £1,000's stg.)

	Capital ($1,000's).	Total Reserves ($1,000's).	Notes ($1,000's).	Cash ($1,000's).	Bills Receivable (Exchange Remittances) ($1,000's).	Bills Discounted, Loans and Credits ($1,000's).	Silver. Current Account ($1,000's).	Silver. Deposits ($1,000's).	Sterling. Current Account (£1,000's).	Sterling. Deposits (£1,000's).	Net Profit ($1,000's).	Dividends.
1870	4,000	800	1,714	—	—	—		9,399 (silver)			644	$12½
1875	5,000	100	1,881	—	—	—		11,526			490	$3¾
1880	5,000	1,800	1,945	—	—	—		24,198			798	£2¾
1885	7,500	5,009	4,377	12,713	35,702	33,844		53,457			877	£4½
1890	8,168	5,532	6,478	18,914	46,855	63,880		93,101			1,108	£5½
1895	10,000	4,750	9,976	36,874	57,530	44,221		104,300			1,677	£2½
							($1,000's)		(£1,000's)			
1900	10,000	Stg. £ 10,000 Sil. $ 2,250	12,513	38,859	68,549	71,240	66,975	33,514	1,903	3,332	2,243	£3½
1905	10,000	Stg. £ 10,000 Sil. $ 8,750	19,053	47,297	113,710	91,144	70,174	53,637	4,452	5,223	3,161	£4½
1910	15,000	Stg. £ 1,500 Sil. $ 16,050	15,994	42,379	121,903	125,286	105,717	61,582	4,006	4,864	3,220	£4½
1915	15,000	Stg. £ 1,500 Sil. $ 18,050	25,562	75,503	150,663	133,484	159,885	69,320	5,195	4,506	6,860	£4 11s.
1920	15,000	Stg. £ 2,500 Sil. $ 19,720	29,332	124,113	215,342	161,779	$336,735 (Total Curr. A/c)		$114,330	(Total Dep. A/c)	8,841	£8
1925	20,000	Stg. £ 4,500 Sil. $ 26,750	45,298	101,105	206,084	267,240	382,894 (Total Curr. A/c)		167,792	(Total Dep. A/c)	12,456	£8
1930	20,000	Stg. £ 6,500 Sil. $ 9,500	108,204	174,571	216,443	448,873	629,392 (Total Curr. A/c)		295,946	(Total Dep. A/c)	20,726	£7
1933	20,000	Stg. £ 6,500 Sil. $ 10,000	146,535	217,695	144,490	388,313	666,364 (Total Curr. A/c)		207,588	(Total Dep. A/c)	15,206	£6

8. *The Anglo-South American Bank, Ltd.* (£1,000's stg.)

	1889.	1913.	1920.	1933.
Capital	200	2,070	4,364	4,367
Reserve Fund	—	1,440	3,850	1,265
,, (Chile)	—	183	183	—
Bills Payable and Acceptances	306	7,830	85,594 5,434	95 2,581
Deposits	49	7,182	58,458	28,428
Loans	238	7,361	26,245	14,641
Bills Receivable	92	5,446	20,890	3,366
Investments in Foreign Banks	—	669	2,729	3,577
Cash	79	1,507	27,673	9,083
Net Profit	2	320	1,024	63
Dividend Per Cent	0	12	15 plus 10 bonus	0
Branches	4	21	32	40

9. *The British Overseas Bank, Ltd.* (£1,000's stg.)

	Oct. 31, 1920.	1921.	1925.	1930.	1933.
Capital	2,000	2,000	2,000	2,000	2,000
Reserve	—	10	125	225	225
Current and Deposits A/cs.	1,402	1,794	2,138	4,549	2,599
Acceptances	1,621	449	3,913	3,927	2,988
Cash	696	569	333	1,820	216
Money at Call	2,025	1,395	1,345	214	685
Balances Abroad	318	1,099	583	353	150
Government Securities	—	100	286	353	396
Investments	132	65	306	588	464
Discounts	117	60	307	1,071	662
Advances	212	386	805	2,148	1,840
Dividend Per Cent on A and B Shares	6 A 0 B	6 A 0 B	6 A 3 B	6 A 6 B	6 A 0 B

10. *British Trade Corporation* (£1,000's stg.)

	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.
Capital	2,000	2,000	2,000	2,000	2,000	1,499	1,000	1,000	1,000
Current A/cs.	632	1,673	1,864	2,478	1,460	1,224	969	1,019	783
Advances	132	1,090	1,201	1,977	1,640	1,144	742	772	560
Acceptances	Nil	212	1,147	2,180	855	581	788	1,225	1,553
Investments	Nil	572	854	799	716	735	660	919	681
Capital in Subsidiaries	Nil	367	589	550	286	312	307	Nil	Nil
Dividends Per Cent	0	2½	4	4	0	0	6 on A shares	6 on A shares	6 on A shares
Reserve	—	—	—	—	—	—	325	325	—

11. *British Italian Corporation* (£1,000's stg.).

	1917.	1918.	1919.	1920.	1925.	1929.
Capital	834,180	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Acceptances, Guarantees, etc.	193,555	431,701	3,435,288	6,330,327	3,128,375	2,232,081
Reserve	83,418	133,418	183,418	233,418	250,000	300,000
Bills Receivable	646,000	565,000	516,500	396,424	445,657	97,032
Investments	312,493	462,857	375,429	453,431	498,717	149,418
Dividend Per Cent	—	—	—	4	6	Nil

12. *Anglo-Austrian Bank* (£1,000's stg.) | *Anglo-International Bank* (£1,000's)

	1922.	1923.	1924.	1927.	1928.	1929.	1930.	1933.
Capital	1,406	1,406	1,406	1,906	1,906	1,906	1,906	1,960
Reserve	375	375	265	0	0	0	0	0
Current A/cs.	4,574	7,439	8,517	4,219	5,139	4,415	4,548	509
Acceptances	896	846	1,274	2,637	3,147	2,567	3,030	1,414
Advances	3,012	4,598	5,468	3,269	4,438	3,811	3,324	1,238*
Investments and Participations	1,615	1,898	1,983	977	751	645	767	132
Dividends Per Cent	2½	0	0	0	0	0	0	0

* Of which £1,156 subject to Standstill Agreements.

13. *Anglo-Czechoslovakian Bank* (C. Kr. 1,000,000's)

	1922.	1925.	1930.	1932.
Capital	120	120	235	120
Reserve	30	61	140	18
Current A/cs.	1,367	1,415	4,025	2,880
Bills Receivable	120	131	426	248
Securities	126	86	358	395
Loans	1,079	925	2,920	2,079

14. COMPETITION OF THE INTERNATIONAL BANKS IN THE CARIBBEAN

Foreign Branch Banks operating in Central America and the West Indies.

	1914.		1921.		1932.	
	Branches in British Colonies.	Elsewhere.	Branches in British Colonies.	Elsewhere.	Branches in British Colonies.	Elsewhere.
English Banks	14	Nil	34	Nil	22	8
Canadian Banks	15	35	41	59	40	76
U.S. Banks	Nil	4	1	85	Nil	62

	1885.	1886.	1887.	1888.	1889.	1890.	1891.	1892.	1893.	1894.	1895.
(a) English Bank of River Plate											
Capital (£)	500,000	500,000	500,000	500,000	748,072	750,000	Suspended July, 1891.				
Reserve .	20,000	30,000	50,000	100,000	250,000	350,000	—	—	—	—	—
Gross Profit	90,019	117,742	156,318	192,588	289,559	265,917	—	—	—	—	—
Expenses .	29,677	38,215	41,563	50,790	61,788	78,092	—	—	—	—	—
Dividend .	7¼%	7½%	7½%	10%	10%	10%	—	—	—	—	—
(b) Anglo-Argentine Bank											
Capital (£)	—	—	—	—	212,214	250,000	250,000	200,000	249,184	249,884	250,000
Reserve .	—	—	—	—	Nil	Nil	Nil	Nil	5,000	5,000	5,000
Gross Profit	—	—	—	—	8,615	34,238	33,556	29,174	10,914	28,661	26,747
Expenses .	—	—	—	—	5,365	12,186	—	16,357	(net)	15,235	15,623
Dividend .	—	—	—	—	Nil	5%	2½%	2½%	4%	5%	5%
(c) London and River Plate Bank											
Capital (£)	600,000	600,000	600,000	600,000	600,000	750,000	900,000	900,000	900,000	900,000	900,000
Reserve .	210,000	220,000	260,000	350,000	500,000	600,000	700,000	750,000	800,000	850,000	900,000
Gross Profit	136,936	170,840	238,173	343,325	429,992	450,394	234,236	295,758	305,648	318,886	347,942
Expenses .	60,777	64,307	66,744	73,957	89,331	98,716	109,579	127,805	131,597	137,366	147,747
Dividend .	11%	11%	13%	15%	15%	15%	10%	10%	12½%	15%	16%

16. "DISCRIMINATION" AGAINST THE MARK AT RIO DE JANEIRO
(*Quoted from Diouritch, "Expansion des Banques Allemandes," Paris, 1909, p. 263*)

1903.	Rio Exchange on Berlin (T.T.). Reis.	Rio Exchange on Berlin via London (T.T.). Reis.	Difference. Reis.
January 1	1,006.343	1,004.979	− 1.364
February 1	1,020.390	1,015.734	− 4.656
March 1	1,008.934	1,001.285	− 7.649
April 1	984.930	981.069	− 3.861
May 1	977.843	973.058	− 4.785
June 1	952.770	921.804	− 30.966
July 1	980.256	980.047	− 0.209
August 1	983.266	983.066	− 0.200
September 1	985.273	986.501	+ 1.228
October 1	985.273	986.359	+ 1.086
November 1	988.283	987.227	− 1.056
December 1	993.300	990.777	− 2.523

17. ZONES OF INFLUENCE OF FOREIGN BANKS IN SOUTH AMERICA IN 1914 [1]

(*a*) *British Banks*

	London and River Plate Bank.		London and Brazilian.		British Bank of South America.		Anglo-South.	
	Branches.	Deposit and Current Accounts (U.S. $1,000's).	B	D	B	D	B	D
Brazil .	9	14,405	11	29,199	3	18,493	—	—
Uruguay	4	9,733	1	1,947	1	5,840	1	487
Argentine	13	70,759	2	7,300	2	22,873	7	5,353
Chile .	1	3,407	—	—	—	—	10	11,193

(*b*) *German Banks*

	Deutsche Ubersee.		Brazil. Bank fur Deutschland.		Bank fur Chile und Deutschland.		Deutsche Sudameri-kanische.	
	B	D	B	D	B	D	B	D
Brazil . . .	4	3,141	5	18,088	—	—	1	3,046
Uruguay . .	1	1,142	—	—	—	—	—	—
Argentine . .	6	22,848	—	—	—	—	1	8,853
Chile . . .	9	9,520	—	—	7	3,808	2	952
Bolivia . . .	2	1,428	—	—	—	—	—	—
Peru. . . .	4	7,140	—	—	—	—	—	—

[1] Quoted from Lough, *Banking Opportunities in South America*, p. 31.

18. SOUTH AMERICAN BANK DEPOSITS AS AT 31 DECEMBER, 1913 [1]
(U.S. $1,000's)

	In European Banks.	In Domestic Banks.
Brazil	78,000	112,000
Uruguay	14,000	28,500
Argentine	173,000	453,000
Paraguay	—	3,500
Chile	29,500	75,000
Bolivia	1,500	7,300
Peru	7,500	21,000
Ecuador	—	4,000
Colombia	—	5,800
Venezuela	—	6,200
Total	303,500	716,300

[1] Quoted from Lough, *op. cit.*, p. 105.

19. BALANCES OF THE BUENOS AIRES BANKS IN 1914 [1]

($1,000's, *Gold and Paper*)

	Deposits.		Advances and Discounts.		Capital subscribed, or corresponding to the Argentine Republic.	
	Gold.	Paper.	Gold.	Paper.	Gold.	Paper.
Aleman Transatlantico	2,986	52,710	3,250	53,690	3,669	—
Anglo-South	767	11,025	1,270	35,537	2,990	4,857
British Bank of South America	1,341	53,400	3,652	44,755	4,559	—
Espanol del Rio	2,142	209,286	1,243	259,465	—	106,150
Frances y Italiano	105	4,240	367	11,870	2,512	—
Frances del Rio	5,434	66,855	5,585	111,107	28,146	—
Germanico de la America del Sud	1,900	17,712	950	29,082	1,237	—
Italia y Rio	1,126	99,615	2,762	101,272	10,052	—
London and Brazilian	1,077	15,602	1,802	16,840	1,274	2,067
London and River Plate	5,649	155,645	3,547	111,927	4,272	—
19 Local Banks	11,594	781,223	4,054	786,608	2,151	284,752
Total	$34,321	$1,467,253	$28,482	$1,562,153	$60,872	$398,026

[1] Hurley, *Banking in the Argentine, etc.* U.S. Department of Commerce Special Agents Series, No. 90, 1914, p. 26.

20. BALANCES OF BUENOS AIRES BANKS ON 31 DECEMBER, 1933 [1]

($1,000's, *Gold and Paper*)

	Deposits.		Advances and Discounts.		Capital subscribed, or corresponding to the Argentine Republic.	
	Gold.	Paper.	Gold.	Paper.	Gold.	Paper.
German Transatlantic	3	68,317	—	45,209	3,650	—
Anglo-South	11	115,130	—	82,404	—	18,125
Spanish and River Plate	21	235,544	—	205,591	—	28,346
French and River Plate	87	60,625	—	74,324	—	28,000
French and Italian	—	34,246	—	29,175	—	5,681
German of South America	0	46,537	—	29,062	3,000	—
Dutch of South America	—	16,203	—	13,881	—	5,000
Italian and River Plate	40	214,817	—	162,630	10,000	—
Italo-Belgian	3	25,331	—	19,206	2,000	—
London and South America	106	254,055	—	144,724	—	18,859
First National Bank of Boston	—	100,958	—	57,518	—	4,710
National City Bank of New York	—	50,231	—	25,449	—	2,944
Royal Bank of Canada	—	49,843	—	23,394	—	2,355
16 Local Banks	70	2,332,756	30	2,186,909	—	338,816
Total	346	3,694,603	30	3,699,606	18,650	452,842

[1] Government Returns, published in *Review of the River Plate*, 9 Feb., 1934.

21. Local Returns of the Chilian Banks in 1914 [1]

	Capital.,		Reserves.		Total Deposits.		Loans to the Public.	
	Paper.	Gold.	Paper.	Gold.	Paper.	Gold.	Paper.	Gold.
22 National Banks	151,260	504	53,825	379	316,005	33,414	424,250	25,473
Foreign Banks:								
Anglo-South	6,960	—	—	—	36,495	11,394	46,945	10,468
Aleman Transatlantico	—	5,055	1,895	1,285	35,920	7,397	39,790	12,459
Chile y Alemana	6,110	—	—	—	15,255	1,074	30,105	2,640
Germanico dela Amer. del Sud	—	3,301	—	—	2,530	1,334	9,850	2,285
London and River Plate	2,000	—	—	—	4,275	7,157	10,185	3,706
Mercantil Bolivia	1,265	—	—	—	115	—	910	—
Total Foreign	16,335	8,356	1,895	1,285	94,590	28,356	137,785	31,558

[1] Quoted from Hurley, *Banking and Credit in Argentine, etc.* U.S. Dept. of Commerce, Special Agents Series, No. 90, 1914.
1 Paper Peso = 0·55 Gold Pesos (approx.).

22. LOCAL RETURNS OF THE CHILIAN BANKS IN 1932 [1]

($1,000's)

	Paid-up Capital.	Reserves.	Paid-up Capital Reserves and Deposits.	Advances in Current Account.	Dispositions.		Other Disposi-tions.
					Loans.	Discounts.	
16 National Banks	265,060	149,572	934,862	215,112	358,657	52,793	122,539
Foreign Banks:							
Aleman Transatlantico . .	24,700	5,730	127,129	39,764	19,048	22,931	2,403
Anglo-South	55,050	—	263,253	116,571	30,343	21,078	17,180
Française et Italienne . .	10,000	155	24,132	5,686	2,498	1,948	926
German of South America .	5,000	2,300	23,982	6,911	5,600	1,974	3,523
London and South America	9,600	2,400	47,242	10,391	9,088	1,928	2,456
Mercantil Bolivia . . .	2,000	618	6,578	1,389	2,134	1,141	346
National City Bank of New York	20,000	5,000	123,534	16,515	9,862	13,702	8,033
Total Foreign	126,350	16,203	615,850	197,227	78,573	64,702	34,867

[1] From *Estadistica Bancaria de la Republica*, 1933, which gives monthly average figures for the latter half of 1932

23. Local Returns of the Brazilian Banks as at 31 December, 1933 [1]

(contos of reis)

(a) Including Branches in Brazil

	8 National Banks.	Italo-Belge.	Dutch of South America.	Deutsche Ubersee.	Portugues do Brazil.	Française et Italienne.	Deutsche Sud-Amerikansche.	Total.
Discounts and Loans	3,626,710	61,536	28,193	124,350	35,256	183,275	78,289	4,137,609
Sight Deposits	2,537,789	65,356	18,824	98,347	27,939	136,250	65,066	2,949,661
Fixed Deposits	415,838	3,230	6,552	52,860	4,004	47,573	36,499	566,556

(b) Rio City Only

	London and South America.	British Bank of South America.	Royal Bank of Canada.	National City Bank of New York.	Canadian Bank of Commerce.	5 National Banks.	Total.
Discounts and Loans	73,974	31,200	39,530	41,367	7,131	215,028	407,730
Sight Deposits	93,417	55,694	47,373	78,369	9,157	190,851	474,861
Fixed Deposits	7,578	11,454	1,809	1,091	—	23,343	45,275

[1] Quoted from *Wileman's Brazilian Review*, 29 January, 1934.

24. List of China's Long-term Loans Foreign and Domestic, 1874–1920

(converted at ruling rates) (based on Lee, "Currency and Banking in China," Appendix D)

	Hongkong Banking Corporation and Assoc. Cos.	Other British Banks.	Germany and Austria.	France, Russia, Belgium and Italy.	Hongkong and Deutsche Asiatische Banks Jointly.	Japan.	Consortium Loans.
1874	250,000	—	—	—	—	—	—
1875	477,700	—	—	—	—	—	—
1876	274,915	—	—	—	—	—	—
1877	1,604,276	—	—	—	—	—	—
1879	243,612	—	—	—	—	—	—
1881	604,250	—	—	—	—	—	—
1885	2,255,000	1,500,000	—	—	—	—	—
1886	95,900	—	—	—	—	—	—
1887	—	—	250,000	—	—	—	—
1894	1,635,000	—	—	—	—	—	—
1895	3,000,000	1,000,000	1,000,000	15,820,000	—	—	—
1896	—	—	—	—	16,000,000	—	—
1898	—	—	—	1,779,750	16,000,000	—	—
1899	2,300,000	—	—	—	—	—	—
1900	—	258,000	—	—	—	—	—
1901	—	—	—	—	—	—	£67½ m.
1902	—	—	—	1,582,000	—	—	—
1903	2,250,000	—	—	988,750	—	—	—
1905	—	—	—	494,375	1,000,000	—	—
1906	1,000,000	—	—	—	—	—	—
1907	2,150,000	—	—	632,800	—	200,000	—
1908	6,500,000*	—	—	—	3,000,000	215,000	—
1909	50,000	—	—	—	2,000,000	—	—
1910	—	—	—	—	3,000,000	—	—
1911	—	500,000	—	—	—	1,000,000	6,200,000
1912	—	5,000,000	750,000	1,625,000	—	500,000	—
1913	—	—	300,000	4,250,000	—	—	25,000,000
1914	375,000	—	4,999,314	4,400,000	—	250,000	—
1915	—	—	—	—	—	500,000	—
1918	—	—	—	—	—	260,000	—
1920	—	—	—	2,748,600	—	—	—
Total	£25,060,653	£8,258,000	£7.299,314	£34,321,275	£41,000,000	£2,925,000	£98,700,000

* £5 m. of this jointly with Banque de l'Indo-Chine.

25. Foreign Banks operating in China, January, 1933

(From "China Year Book")

Name.	Estab-lished.	Head Office.	Branches in China.	Paid-up Capital.
American Express	1919	New York	4	U.S. $ 6,000,000
American Oriental Banking Corporation	1918	Shanghai	1	U.S. $ 550,000 and $1,250,000
Banque Belge pour l'Etranger	1902	Brussels	3	Francs 158,424,125
Banque de l'Indo-Chine	1875	Paris	8	,, 130,400,000
Banque Franco-Asiatique	1929	,,	2	,, 25,000,000
Banque Franco-Chinoise *	1925	,,	4	,, 50,000,000
Deutsche Asiatische	1889	Berlin	6	Tls. 4,525,000
Chase Bank—late Equitable Eastern Banking Corporation	1920	New York	3	U.S. $ 5,000,000
Far Eastern Bank of Harbin	1923	Harbin	3	$5,000,000
Italian Bank for China	1920	Shanghai	1	U.S. $ 1,000,000
National City Bank of New York	1814	New York	9	,, 100,000,000
Nederlandsche Handels Maatschappij	1824	Amsterdam	2	Florins 80,030,000
Nederlandsche Indische Maatschappij	1863	,,	4	,, 55,000,000
Thrift and Investment, Finance and Trust Corporation	1927	Harbin	2	Yen 196,301
34 Japanese Banks	—	—	78	,, 454,868,287
British Banks:				
Chartered Bank of India	1853	London	8	£3,000,000
Hongkong and Shanghai Banking Corporation	1867	Hongkong	13	H $ 20,000,000
Mercantile Bank of India	1892	London	2	£1,050,000
P. and O. Bank	1920	,,	2	£2,594,160
E.D. Sassoon Banking Company	1931	Hongkong	2	£50,000

* Joint Sino-French enterprise.

26. The Eastern Banks and the Fall in Silver, 1870–1900

	1870.	1875.	1880.	1885.	1890.	1895.	1900.
Average Price of Silver (per oz.).	61*d.*	57*d.*	52*d.*	49*d.*	48*d.*	30*d.*	28*d.*
(*a*) *Agra Bank*							
Capital (£)	978,239	987,970	1,000,000	1,000,000	1,000,000	600,000	In liquidation.
Reserve	6,000	40,000	150,000	200,000	115,000	Nil	—
Gross Profit	96,303	140,115	65,959	231,297	261,158	43,219	—
Expenses	47,792	49,463	(net)	175,450	195,397	38,257	—
Dividend	3½%	5%	5½%	5½%	5%	1%	—
(*b*) *Chartered Bank of India*							
Capital (£)	800,000	800,000	800,000	800,000	800,000	800,000	800,000
Reserve	Nil	20,000	190,000	200,000	250,000	325,000	525,000
Gross Profit	19,543	144,701	76,479	199,473	221,301	206,901	294,532
Expenses	(net)	79,972	13,140	103,916	107,964	116,444	146,285
Dividend	Nil	5%	7%	7%	8%	8%	10%
(*c*) *Chartered Mercantile Bank* [1]							
Capital (£)	750,000	750,000	750,000	750,000	750,000	562,500	562,500
Reserve	37,068	100,713	60,121	130,000	250,000	Nil	40,000
Gross Profit	153,113	244,818	64,530	141,560	203,596	64,453	86,932
Expenses	103,633	108,908	(net)	87,732	96,029	48,190	51,089
Dividend	6%	8%	5%	5%	5%	2%	4%
(*d*) *Hongkong Bank*							
Capital ($1,000's)	4,000	5,000	5,000	7,500	8,168	10,000	10,000
Reserve	800	100	1,800	5,009	5,532	4,750	2,250 (plus £ stg. 10 mns.)
Net Profit	644	490	798	877	1,108	1,677	2,243
Dividend	$12½	$3¾	£2¾	£4½	£5½	£2½	£3½
(*e*) *Oriental Bank Corporation* [2]							
Capital (£)	1,500,000	1,500,000	1,500,000	331,346	588,075	Suspended	1892.
Reserve	444,000	450,000	13,672	Nil	Nil	—	—
Gross Profit	182,133	168,068	250,437	30,454	121,713	—	—
Expenses	(net)	(net)	179,221	19,155	81,783	—	—
Dividend	12%	11%	4%	Nil	6%	—	—

[1] After 1893 reconstructed as the Mercantile Bank of India, Ltd.
[2] After 1880, reconstructed as the New Oriental Banking Corporation, Ltd.

INDEX

Acceptances, 3, 6, 12, 26, 45, 56, 77, 149, 173, 199, 203, 227, 241
Agencies (foreign), 22, 191
Agra and Masterman's Bank, 45, 68, 158, 161, 166, 175, 232
American international banks, 7, 221
Amsterdam money market, 14, 29
Anglo-Argentine Bank, 147
Anglo-Austrian Bank, 22, 44, 95, 197, 199
Anglo-Californian Bank, 159
Anglo-Czecho-Slovakian Bank, 200
Anglo-Egyptian Bank, 27, 61, 68, 71
Anglo-German Bank, 44
Anglo-Italian Bank, 47
Anglo-Japanese Bank, 176
Anglo-Russian banks, 50, 196
Anglo-South American Bank, 11, 146, 155, 202, 224
Anglo-Tunisian Bank, 113
Asiatic Banking Corporation, 165, 169
Austro-Turkish Bank, 95

Bagdad Railway, 5, 35, 101, 105, 124
Bank of Alexandria, 70
" Bank of China," 167, 171
Bank of China, Japan and the Straits, 175
Bank of Egypt, 15 n., 61, 71, 77, 82, 113
Bank of England, 11, 29, 56, 66, 74, 88, 94, 149, 199, 227
Bank of Tarapaca, 146
" Bank of Turkey," 94
Banque de l'Indo-Chine, 36, 182, 230
Banque de Paris, 22 n., 57, 125
Banque des Prêts de Perse, 122, 208
Banque de Turquie, 84
Banque Industrielle de Chine, 36, 188, 219
Banque Nationale Francaise, 7
Barclays Bank, 202
Barings, 2, 46, 105, 116, 142, 148, 193, 229
Bischoffsheim, 47, 95, 137, 158 n.
Branch bank system, 22, 24, 43 n., 152, 164, 174, 201 n.; opposition to, 30, 32
British American Exchange Bank, 156
British and Californian Banking Co., 158
British Bank of Northern Commerce, 57
British Bank of South America, 141, 202, 225
British Italian Corporation, 197
British Overseas Bank, 203
British Trade Corporation, 8, 194, 229

Cassel, Sir Ernest, 75, 105, 107, 111
Celman, President, 132 n., 148
Central banking, 72, 74, 204, 207, 213, 220, 240
Chartered Bank of Asia, 162
Chartered Bank of India, 37, 162, 217 n., 229
Chartered Bank Regulations, 10, 55, 92, 114, 169, 235
Cobden Treaties, 41, 47
Commandites, 23
Companies Acts, 11, 41, 50, 55, 114

Competition, international banking, 72, 100, 122, 132, 154, 166, 180, 211, 221, 232, 240
Concessions, 46, 51, 79, 84, 114, 120, 129, 144, 183, 206
Consortium, China, 37, 185, 228; "pirate," 186, 188
Consular Reports, 62, 94 n., 113, 117, 128, 130, 133
Continental Bank Corporation, 43
Credit information, 6, 23, 194, 204
Credit Lyonnais, 3, 13, 41, 71, 75, 125

Deutsche Bank, 3, 23, 35, 41, 44, 78, 100, 104, 107
Discrimination, 28, 132, 205, 210, 215
Double liability, 64, 82

Eastern Bank, 37, 187, 208, 229
Eastern Exchange Bank, 70
East India Company, 2, 61, 160
English Bank of R. Plate, 147, 150
European Bank, 42
Extra-territoriality and foreign banks, 17, 208, 217

Faringdon Report, 194
Foreign Exchange business, 14, 33, 52, 95, 152, 161, 177, 204, 212; risks, 19, 69, 140, 147 n., 171, 173, 241
French international banks, 7, 13, 36, 103, 154
Frühling and Goschen, 48, 90, 158 n., 193

German Bank of London, 23, 44
German international banks, 7, 26, 57, 152, 154
Glyns, 46, 80, 113, 116, 121, 137, 147, 193

Hongkong and Shanghai Banking Corporation, 11, 15 n., 21, 37, 165, 229

Imperial Bank of Persia, 34, 120, 208
Imperial National Bank of Turkey, 83
Imperial Ottoman Bank, 22, 27, 34, 37, 61, 70, 78, 116, 205
Imperial Privileged Union Bank of Austria, 45
Ionian Bank, 27, 51, 71, 201

Kemmerer Commissions, 214

Layard, Austin, 80
Limited liability, operation of, 10, 81, 139, 147, 168
Lloyds Bank, 57, 192, 195, 209, 223, 229
London and Brazilian Bank, 15 n., 138, 196, 202, 223; in Santa Fé, 131
London and Hanseatic Bank, 23, 44
London and Mediterranean Bank, 43
London and Paris Joint Stock Bank, 41
London and R. Plate Bank, 17, 37, 120, 146 n., 155, 223
London and San Francisco Bank, 158
London Bank of Mexico and S. America, 141, 158
London Bank of Tunis, 34, 116
London, Paris and American Bank, 159
London Venezuelan Bank, 147

Management problems, 10, 66, 92, 101, 128, 158, 179, 201, 223, 238
Madrid Bank, 48
Mauá Banks, 128, 131, 138
Mercantile Bank of India, 162, 175
Mercantile Bank of R. Plate, 147
Merchant bankers, 2
Midland Bank, 22, 57, 191

National Bank of China, 177, 232
National Bank of Egypt, 73, 208
National Bank of India, 165
National Bank of Turkey, 37, 100 n., 107, 110, 196, 207

National City Bank of New York, 18 n., 22 n., 24, 57
National Provincial Bank, 192, 195
Niemeyer Commissions, 210, 213
Note-issuing powers, 52, 63, 73, 93, 116, 218

Oriental Banking Corporation, 61, 120, 156, 161, 163, 175
Overend, Gurney and Company, 45, 139, 157, 163

P. & O. Banking Corporation, 233
Political connections with local governments, 60, 93, 98, 129, 142, 216; with home governments, 5, 17, 34, 181, 187, 236
Public Debt Administration, Tunisian, 116; Turkish, 98, 101, 107, 112, 206

Railway finance, 47, 83, 103
Representatives abroad, 22
Reserves, 21, 56, 93
Rothschilds, 4, 21, 85, 110, 138, 229
Royal British Bank, 11, 42

Staff difficulties, 15, 69

Thomson, Bonar & Company, 48, 50, 88, 135 n.

Union Bank of England and France, 42
Union Bank of Spain and England, 49

Westminster Bank, 58, 61, 78, 192, 196, 229

Yokohama Specie Bank, 7, 36, 222, 230

Printed in Great Britain by Butler & Tanner Ltd., Frome and London

BOOKS TO READ

THE IMPERIAL BANKS.

By A. S. J. BASTER, B.Com., B.Sc. (Econ.).

Demy 8vo. 288 pp. 12*s.* 6*d.*

This book, which gained for its author the Institute of Bankers' prize, is intended to show something of the history and present position of the important and well-defined group of London banks operating mainly in the countries of the British Empire. It is particularly concerned with some problems raised by the recent formation of great commercial "Empire Banks" in London. The investigation breaks entirely new ground, as no comprehensive general account of the work of the British Overseas Banks has yet been published in England.

CO-OPERATIVE BANKING.

By N. BAROU, with an Introduction by Rt. Hon. SIDNEY WEBB, LL.B.

Demy 8vo. 375 pp. 15*s.*

The Co-operative News: "This book is undoubtedly one of the most important and valuable additions made to the literature of Co-operation in recent years. It is comprehensive, authoritative and almost judicial in its dispassionate survey of the vast subject. Based on prolonged and wide research, the book is at once an encyclopædia, a text-book and a guide which can be trusted; and Mr. Barou's comments and conclusions are so sane, logical and helpful that what he says is bound to have great influence on co-operative banking policy, both national and international."

THE EARLY HISTORY OF BANKING IN ENGLAND.

By R. D. RICHARDS, Ph.D.

Demy 8vo. 344 pp. 15*s.*

A carefully documented account is given of the early history of English banking, with particular reference to the operations of the goldsmith bankers, the evolution of English paper money, and the early transactions of the Bank of England.

This is followed by an interesting survey of later English banking developments up to the Bank Acts of 1833, and a lucid analysis of the economic, political, and religious conditions under which banking originated in England.

A HISTORY OF THE BANK OF ENGLAND.

By A. ANDRÉADÈS, C.B.E., Professor of Public Finance in the University of Athens, with a Preface by Professor H. S. FOXWELL, M.A. *Third Edition.*

Demy 8vo. 455 pp. 15*s.*

Manchester Guardian.—"The book discloses not only wide research on the part of the writer, but also a deep sympathy with the subject which carries the reader along with it. It is certainly *the* History of the Bank, and derives special interest from being the work of a foreigner, who naturally does not view his subject from exactly the same standpoint as ourselves. As a history it appears to be marvellously comprehensive, and the review of the surrounding conditions affecting general finance at various periods is both accurate and intelligent."

P. S. KING & SON, LTD.
14 Great Smith Street, London, S.W.1

BOOKS TO READ

THE PRICE OF GOLD: Documents Illustrating the Statutory Control through the Bank of England of the Market Price of Gold, 1694–1931.

By I. SHRIGLEY, M.A., Librarian of the Institute of Bankers. With a Preface by R. HOLLAND-MARTIN, C.B.

Demy 8vo. 120 pp. *7s. 6d.*

The purpose of this collection of rare documents, many of which are out of print, or not available to the reading public, is to show the official position of gold as a marketable commodity from the Incorporation of the Bank of England to the Gold Standard (Amendment) Act of 1931. The war period is the least tangible and the only one to which have been added the few simple notes the book includes. Prices of gold during the whole period are here collected together for the first time.

OLD AND SCARCE TRACTS ON MONEY.

With a Preface by J. R. MCCULLOCH. Notes and Index. Photographed from the original volume printed for the Political Economy Club, 1856, of which only 125 copies were printed.

Demy 8vo. 656 pp. *15s.*

Detailed prospectus and list of Contents post free on application.

Manchester Guardian: "This remarkable assembly of seventeenth- and eighteenth-century pamphlets becomes for the first time accessible to the student. But the general reader who is inclined to dabble in the mysteries of currency will find these 600 odd pages worth burrowing into."

THIS MONEY BUSINESS: A Simple Account of the Institutions and Working of the Banking and Financial World.

By BARNARD ELLINGER, C.B.E.

Demy 8vo. 144 pp. (*Second Edition.*) *6s.*

Written by a Manchester merchant, this book describes simply and practically the organisation and working of our banking and financial system, and shows how the various parts of the machine form one coherent whole. It is intended primarily for those with little or no previous knowledge of the subject, and should be helpful to young students and those members of the general public who are desirous of understanding the important bearing which international monetary problems have on our present distress.

TREASURIES AND CENTRAL BANKS.

By D. W. DODWELL, Ph.D., with a Foreword by SIR BASIL P. BLACKETT, K.C.B., K.C.S.I.

Demy 8vo. 232 pp. *10s. 6d.*

The relations between Governments and their Central Banks are usually shrouded in mystery for all but the few persons directly concerned. The author throws light on this difficult and most important subject by tracing the growth of these relations historically in England and the United States and suggesting some general conclusions. He discusses from this point of view the sensational developments of monetary policy in recent years and the prospects for the future.

P. S. KING & SON, LTD.
14 Great Smith Street, London, S.W.1.

BOOKS TO READ

THE PRINCIPLES AND PROBLEMS OF FEDERAL FINANCE.

By BHALCHANDRA P. ADARKAR, B.A., Professor of Economics, Benares Hindu University.
Demy 8vo. 315 pp. 12*s.* 6*d.*

Bankers' Magazine : " The Principles and Problems of Federal Finance is, in view of modern tendencies, an extremely interesting work. The consideration given to general financial principles is most carefully developed and the difficulties most fully instanced and explained . . . it presents a most comprehensive study of a subject on which comparatively little information is readily available."

BRITISH BANKS AND THE FINANCE OF INDUSTRY.

By S. EVELYN THOMAS, B.Com. (Lond.).
Demy 8vo. 304 pp. 12*s.* 6*d.*

A comprehensive account of the post-war controversy between British Banks and British Industrialists on the important question as to how far our banking technique and monetary policy have contributed to or accentuated the prevailing conditions of depression.

A concise comparison of Continental and British Industrial Finance is included, and, after reviewing the recent developments in our banking organisation, the author concludes that further distinct advance is called for if our Banks are adequately to meet the requirements of our markedly changed economic structure.

INSURANCE AGAINST CREDIT RISKS IN INTERNATIONAL TRADE.

By ELIA M. SHENKMAN, Ph.D. (Econ.).
Demy 8vo. 360 pp. 15*s.*

The first systematic study of this important subject published in the English language. The Author deals fully with the theoretical principles and business organisation of private and State insurance against credit risks in the foreign trade of seventeen countries in Europe and overseas.

MONETARY OPINIONS AND POLICY, 1924–34.

By MARY THERESA RANKIN, M.A., D.Phil.
Crown 8vo. 164 pp. 6*s.*

This book is a series of addresses delivered to public bodies in Edinburgh on post-War monetary questions as they arose for consideration. The express purpose of the addresses was the informing and moulding of public opinion on matters of monetary policy. The series thus forms both a connected history of monetary events and problems of the period, and a critical exposition of the principles and theories involved, and in a form especially valuable to the non-academic economist and the man of affairs desirous of forming judgments on future policy—the more so that the general standpoint throughout is one that events have justified.

P. S. KING & SON, LTD.
14 Great Smith Street, London, S.W.1.