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Brian O’Sullivan

From Crisis to Crisis

The Transformation of Merchant Banking, 1914–1939
Acknowledgements

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While I have tried to deal with errors in this book, I am sure some have escaped my attention. Needless to say, any remaining errors are entirely my responsibility.
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ABBREVIATIONS

ARCHIVES

AHC  Accepting Houses Committee  
BA  Baring Archives  
Bod  Bodleian Library  
BoE  Bank of England  
FRBNY  Federal Reserve Bank of New York  
HofC  House of Commons  
HPD  Hansard Parliamentary Debates  
LBGA  Lloyds Banking Group Archive  
LMA  London Metropolitan Archives  
LSE  London School of Economics Archives  
MLM  Morgan Library & Museum, New York  
NYPL  New York Public Library  
PP  Parliamentary Papers  
SA  Schroders Archive  
TNA  The National Archives  
UNott  University of Nottingham

INSTITUTIONS

ASAB  Anglo-South American Bank  
BBFT  British Bank for Foreign Trade  
BFCC  British, Foreign and Colonial Corporation  
BIC  British Italian Corporation  
BIDC  Bankers Industrial Development Company
ABBREVIATIONS

BOB  British Overseas Bank
BOLSA  Bank of London and South America
BST  The British Shareholders’ Trust Limited
BTC  British Trade Corporation
BTH  British Thomson-Houston
CEB  Central Electricity Board
EAC  Economic Advisory Council
FBI  Federation of British Industries
FSA  Financial Services Authority
HSBC  Hong Kong and Shanghai Bank
LCC  Lancashire Cotton Corporation
LCMB  London, City and Midland Bank
LCWB  London, County and Westminster Bank
LETB  London and Eastern Trade Bank
LFBC  London and Foreign Banking Corporation
LMB  London Merchant Bank Limited
SCB  Standard Chartered Bank
UDT  United Dominion Trust

JOURNALS

AER  The American Economic Review
AJIL  The American Journal of International Law
BEH  Business and Economic History
BH  Business History
BHR  The Business History Review
BJPS  British Journal of Political Science
BJS  The British Journal of Sociology
CEH  Contemporary European History
CJH  Canadian Journal of History
EEH  Explorations in Economic History
EHR  The Economic History Review
EJ  The Economic Journal
EngHR  The English History Review
FHR  Financial History Review
HJ  The Historical Journal
HR  Historical Research
IHR  The International History Review
JAH  The Journal of African History
JCH  Journal of Contemporary History
JEH  The Journal of Economic History
OEP  Oxford Economic Papers
<table>
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<td>P&amp;P</td>
<td>Past &amp; Present</td>
</tr>
<tr>
<td>QJE</td>
<td>The Quarterly Journal of Economics</td>
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<tr>
<td>SSI</td>
<td>Social Science Information</td>
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<tr>
<td>TCBH</td>
<td>Twentieth Century British History</td>
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<td>TLJ</td>
<td>The London Journal</td>
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<td>TMS</td>
<td>The Manchester School</td>
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CHAPTER 1

Introduction

The title of this book, *From Crisis to Crisis: The Transformation of Merchant Banking*, might refer to a number of crisis events that affected the British merchant banks. A neat periodisation might be provided by the Barings’ crises of 1890 and 1995—a period of one hundred and five years beginning and ending with high-risk misjudgements. Alternatively, the much shorter period between the financial crises in 1914 and in 1931 might be considered or, indeed, the beginning of the First World War and the end of the Second World War. However, the focus of the research for this book has been the interwar period of the 1920s and 1930s—a period of significant economic strain and considerable social change. The story would be incomplete without considering the periods before and after—the prelude leading to the outbreak of war in 1914 and the endgame in the latter decades of the twentieth century.

The main aim of this work is to examine how the merchant banks responded to the radical shift in economic conditions during the interwar period. It aims to show that those merchant banks that survived into the late twentieth century began the process of transforming their businesses in the interwar period; those that failed to do so either went out of business quickly or experienced lengthy struggles and eventual decline over a number of decades. Some of the merchant banks that survived into the late twentieth century later made poor strategic choices and exhibited characteristics that had led to the demise of so many other merchant banks in the past, including adopting high-risk strategies without adequate capital backing or operating with poor financial controls.
Those that learnt the lessons of the interwar period managed to survive by transforming their businesses to lower-risk, less capital-intensive advisory services. These changes did not follow a linear pattern; they either evolved gradually or usually occurred in response to crisis events, but their origins can be traced to the interwar period.

During the late nineteenth century, Britain’s merchant banks had become pre-eminent in a world of fixed exchange rates, free trade and the unfettered mobility of international capital. These features of the economy were increasingly challenged in the interwar period and were eventually replaced by floating exchange rates, trade protectionism and restrictions on capital movements. During the interwar period, Britain’s role as international financial hegemon came under growing pressure from the USA, and, as a consequence, Anglo-American relations were put under strain. The threat to Britain’s established role as banker to the world was echoed in other shifts of power in Britain between social groups and different sectors of its economy. Britain’s overseas investment and its imperial obligations had to be balanced against the growing demands for domestic social spending. The need to rebuild Britain’s staple industries after the First World War against a backdrop of changing international demand gave rise to stresses in the balance of power between industry and finance. The rise of the corporate economy also produced some fundamental changes not only in British industry, but in its financial sector. The growth of the domestic joint-stock banks in particular created competitive pressures for the merchant banks.

Many of the merchant banks that were in business during the interwar period could trace their heritage back to the mid-nineteenth century; some even earlier. Some of these firms have long since been forgotten such as W. Ladenburg & Co. and Mildred, Goyeneche & Co., founded in 1785 and 1796, respectively, and Samuel Dobrée & Sons, which was established in about 1720—over forty years before Barings started business in London. A few of the names were regarded as being at the heart of the British financial establishment, such as Rothschilds, Schroders, Hambros and Barings. Although several merchant banking firms survived the interwar period—indeed some new ones were established—the mortality rate was high. By the end of the millennium, the merchant banking sector had to all intents disappeared.

In 1931, the Committee on Finance and Industry acknowledged that the merchant banks were an important part of the British monetary system. In their role as accepting houses, together with the discount
houses, they provided the function of accepting and discounting bills of exchange. These firms were described as “highly specialised” and of “world-wide standing”. Similarly, in 1959 the Committee on the Workings of the Monetary System described the accepting houses as “domestic bankers on only a minimal scale” that were nevertheless “an important element” in London’s money market. Generally, the financial services sector has been an important part of the UK economy since the eighteenth century. As the merchant banks played a key role in this success, it is important to know what happened to this once-thriving sector. It is my contention that the answers can be found in the interwar period.

In the interwar period, the traditional business model of the British merchant banks came under severe pressure. Undertaking activities that put a firm’s capital at risk became untenable for many of the merchant banks as they simply had insufficient capital to absorb the scale of losses that they were exposed to. These activities included highly concentrated exposures in acceptance financing, the warehousing of new issues of securities and acting as principals in commodity trading. The inherent risks in such activities were exposed during the financial crises of 1914 and 1931. The poor risk management and lax financial controls of many firms combined with an inadequate regulatory regime allowed these practices to flourish. Although such risks had been exposed before, such as during the Barings crisis of 1890, it was only during the interwar period that circumstances dictated a gradual shift by the merchant banks towards advisory and agency services, which were reasonably low-risk and required only relatively modest amounts of capital. These changes continued to unfold in the second half of the twentieth century.

While the merchant banks played an important role in Britain’s financial system, their ability to cope with financial upheavals was generally poor. Many of those that survived did so as a result of support from the Bank of England (hereafter BoE) or the larger clearing banks. This support was usually given to avoid financial contagion, which might have caused widespread damage in the economy. There was an implicit recognition of the vulnerability of the merchant banks despite being a key component in Britain’s banking system. A better understanding of the evolution of merchant banking in the interwar period should provide a vital missing piece in the story of the British banking system. It should not only give insights into broader changes in Britain’s international role and in its economy at that time, but also highlight parallels with a number of issues currently faced in the financial sector.
In the light of the significant role played by the merchant banks in Britain’s interwar economy, it is surprising that their history in this period has been under-researched. It is hoped that this book will address this gap in the historiography. However, before proceeding further an attempt will be made to define what is meant by a merchant bank.

**What Is a Merchant Bank?**

The meaning of the term merchant bank has changed over time; indeed, most of the firms that became known as merchant banks frequently referred to themselves as merchants or accepting houses. The confused state of affairs was well summarised by Edward Reid, a former director of Barings, in an address to the Institute of Bankers in 1963 in which he said that the term merchant bank is

sometimes applied to banks who are not merchants, sometimes to merchants who are not banks, and sometimes to houses who are neither merchants nor banks.\(^{11}\)

Merchant banking in Britain has been defined as the prolonged intermediate stage in the development of banking from commerce.\(^{12}\) While this may seem to be a fair encapsulation of the general evolution of this sector, it fails to capture some of its complexities and in some respects is quite misleading. Many merchant banks certainly originated from mercantile roots, but so did many other banks.\(^{13}\) Merchant banks originally provided banking services to merchants in their own sector of trade while retaining their own involvement in such trades. For example, Barings and Brown Shipley only abandoned their trade roots gradually over a generation or more, whereas Fredk. Huth & Co. and Wm. Brandt’s Sons continued to deal in commodities well into the interwar period.\(^{14}\) Merchants normally extended credit to customers as part of their trade, whereas merchant banks provided credit even though they were not involved in the underlying trade transactions; this is an important distinction.

Modern international finance had its origins in northern Europe in the seventeenth century.\(^{15}\) Many of the financial instruments that later formed the basis of merchant banking, such as negotiable trade credits, marketable long-term debt and equity securities, evolved at that time. The growth in international trade led to innovations in financial services
in order to provide flexible short-term credits and long-term capital. The merchants who dealt in these instruments in addition to their trading activities were the nascent merchant banks. They held deposits for their customers as well as providing them with related services such as foreign exchange dealing, shipping agency and insurance broking. The guaranteeing (acceptance) of trade bills for other businesses resulted in the term accepting house being adopted. While some of the larger houses also became involved in dealing in issues of long-term debt for sovereign states, public bodies and utilities, there were also other specialist firms that dealt almost exclusively in securities issuance. These specialist firms were often referred to as issuing houses.

For much of their history, the merchant banks therefore had two defining activities: wholesale trading and trade finance, which were supplemented in the larger houses by securities issuance. Although the merchant banks usually also held deposits, they did not take retail deposits; their deposits were usually held in connection with their customers’ trading or financing activities. Merchant banks can therefore be defined as merchant firms that provided wholesale banking services.\(^\text{16}\)

Stanley Chapman has classified some firms as merchant banks at the end of the nineteenth century that would later be regarded as international merchants. For example, he has included Louis Dreyfus & Co., the grain merchants, and John Hubbard & Co., the Russian mercantile house. He has also classified the private banks, Cox & Co. and Glyn Mills, as merchant banks at that time.\(^\text{17}\) This is not to suggest that such classifications are wrong; it is more an indication of the continuous development of the sector.\(^\text{18}\) Similarly, in the 1960s firms such as Henry Ansbacher and Gray Dawes became known as merchant banks; although in the interwar period, they operated as stockbrokers and shipping agents, respectively.\(^\text{19}\)

While some of the better-known merchant banks increasingly focused on financial activities, some merchant banks remained more broadly focused mercantile houses, including Balfour Williamson, Antony Gibbs & Son and Ralli Brothers. Other firms had their roots in mining finance such as Barnato Brothers, L. Hirsch & Co. and Neumann Luebeck, a founder member of the Accepting Houses Committee (hereafter AHC) in 1914, whereas others had their roots in stockbroking such as S. Japhet, R. Raphael & Sons, Helbert Wagg and Singer & Friedlander. Issuing houses such as Robert Benson & Co. and Close Brothers, which were both involved in financing American railway issues in the
nineteenth century, and Robert Fleming & Co., known as the father of the investment trust, all later became recognised as merchant banks. New merchant banks were also established in the interwar period such as Cull & Co., Dawnay Day, Leopold Joseph & Sons, Philip Hill & Partners, which later became part of Hill Samuel, and S. G. Warburg. The merchant banking sector was therefore far from being a homogeneous group.

For the purpose of this book, merchant banks will be defined as those firms that undertook mainly wholesale banking services such as trade finance, securities issuance and commodity trading. This definition will not be taken too literally as the nature of wholesale banking services changed over time especially in the period under consideration. The grey areas that existed between merchants, issuing houses, stockbrokers, discount houses and the merchant banks will not be dwelt upon. The simplest form of categorisation is to assume that firms are merchant banks if either they were generally known by others as such or if they choose to define their business in this manner.

**Historiography**

The historiography of the merchant banks in the interwar period is not extensive. The most notable works about the sector in general are Chapman’s *The Rise of Merchant Banking* and its companion volume *Merchant Enterprise in Britain*, but these works deal with the period up to 1914 only. Eric Banks has considered merchant banks from their early days to the end of the millennium, but his work is not based on archival research, relying on secondary sources only. Similarly, Joseph Wechsberg’s book, *The Merchant Bankers*, is largely anecdotal. There are a few works dealing with the practice of merchant banking in the 1970s and 1980s, but they shed little light on merchant banking in the interwar period. Richard Kellett’s book about merchant banks is also not based on primary sources and focuses predominantly on the post-1945 period.

The lack of historiography on the merchant banking sector in the interwar period is in part because of the incorrect belief that the merchant banks were essentially moribund at that time. This false impression was neatly captured by Kellett in 1967. He wrote about merchanting banking being “a ghost-ridden world” from the early 1930s with few facts available. He claimed that enquires were not welcomed by the
merchant banks as they regarded any publicity as “essentially vulgar”.\(^{25}\)

Chapman has offered a different explanation for the gap in the historiography, pointing out that a lack of access to records of the interwar period mainly arose from the banks’ need to safeguard the confidentiality of customer records.\(^{26}\) Nonetheless, some historians have been allowed extensive access to archives to enable them to write individual firm histories. Some of these histories are now fairly dated. Caution also needs to be exercised in using them as some are authorised versions sponsored by the banks themselves so may present an overly optimistic or even romantic view of events.\(^{27}\) A few of the larger houses are well covered by more recent works, which are generally of a much higher level of scholarship.\(^{28}\) Kleinworts was the subject of a thesis in 1983 by Stefanie Diaper.\(^{29}\) She later produced two articles about merchant banking in the interwar period, but such works are rare.\(^{30}\)

There are also a few excellent works about the City in general, especially by Ranald Michie and by David Kynaston, whose four-volume work gives a monumental panorama of the City over a period of almost two hundred years.\(^{31}\) R. S. Sayers’ three-volume history of the BoE, based on original archival research, is a particularly good source. However, none of these works deal specifically with the merchant banks.\(^{32}\)

What themes emerge from these works about merchant banking in the interwar period? The financial crises of 1914 and 1931 together with their aftermaths present a thread that runs through the period under consideration. These crises highlighted the weaknesses and risk-taking of many of the merchant banks, but also brought into sharp relief the poor regulatory environment in which they operated. Globalisation is another recurring theme. For some historians, the outbreak of war in 1914 has been seen as a discontinuity, ending a period of globalisation. However, the growth of multinational banking and the continuity of British international traders after 1914, including the mercantile activities of the merchant banks, need to be reconciled with this view. Anglo-American relationships are recognised in the historiography as an important theme, creating both opportunities and rivalry. In a similar manner, the complex interaction between the joint-stock banks, including the British overseas banks, and the merchant banks has featured. Finally, the merchant banks’ alleged undue influence over economic policy has repeatedly surfaced in the historiography. For example, the debates about the gold standard and the City’s involvement in the domestic economy have depended heavily on this theme. How have these themes been covered in the historiography?
The crisis precipitated by the outbreak of war in 1914 might be considered to be the forgotten financial crisis, but it played a significant part in changing the course of merchant banking. Nonetheless, the crisis has until recently received little coverage in the historiography. Some near-contemporary accounts offer excellent insights. An American perspective on the crisis, tracing the consequential rise of American financial dominance, has been given by William L. Silber. The most extensive recent analysis has been provided by Richard Roberts. He considered the crisis from a broad perspective rather than simply focusing specifically on the merchant banks. He described the stages of the crisis as breakdown, containment and revival. Roberts explained that the capital of the merchant banks at that time was considered adequate protection against the “occasional default”. However, a number of the merchant banks had concentrated their exposure in certain countries and had also guaranteed acceptances, in the form of finance bills, which were essentially illiquid short-term loans. These firms did not have sufficient capital to cover their contingent liabilities. While the 1914 financial crisis itself was relatively short-lived, it had major consequence for Britain’s financial sector especially the merchant banks. Some of the merchant banking firms never properly recovered from it, and its consequences reverberated throughout the 1920s. A continuation of a light-touch regulatory regime had allowed these systematic weaknesses in the banking sector to remain largely undetected with some of the underlying causes recurring in 1931.

Recent historiography has drawn parallels between the financial crisis of 2007/2008 and those of 1914 and of 1931. Barry Eichengreen has claimed that these parallels in respect of the 1931 financial crisis were well known in policy circles before the 2007/2008 financial crisis and helped shape the subsequent response to it by avoiding the mistaken actions that led to economic depression in the 1930s, Eichengreen has commented, however, that such prior knowledge is difficult to reconcile with the failure to deal with the risks ahead of the crisis. Certainly, a better appreciation of the underlying issues that contributed to the financial crises in 1914 and 1931 should have helped identify some of the problems that led to the 2007/2008 crisis. The parallels include the growth of credit by means of acceptance finance provided by the merchant banks, which became a form of unregulated shadow banking—the provision of credit by institutions other than regular depositary banks. Acceptance financing—the guaranteeing the debts of others—was often
undertaken by firms with small amounts of capital. The contingent liabilities created by these firms were normally a multiple of their own capital and were often geographically concentrated. Similarly, in the recent financial crisis, institutions selling credit default swaps offered guarantees without sufficient capital to support the contingent liabilities thus created. The growth of the large joint-stock banks after the First World War, especially their expansion into activities other than deposit-taking, also has echoes in the massive expansion of their successor banks in recent times. An understanding of the impact of these issues in the interwar period should provide new perspectives on current banking regulation and on the recent financial crisis.

There is good coverage of globalisation in the historiography. The generally accepted view is that 1914 ended a golden age and caused the decline of internationally focused businesses such as the merchant banks. Stefano Battilossi has challenged this view. He has noted the growing involvement of the commercial banks, such as the British clearing banks, in international markets during the period 1890–1931, was accompanied by a decline in specialist banking institutions such as the merchant banks. Robert Boyce has also questioned this periodisation of twentieth-century history. He has claimed that 1914 has mistakenly been treated as a turning point when the age of globalisation ended. Instead, he has argued that the end occurred in 1927 when finally, both the economic and political systems collapsed. Boyce has contended that, after the war, Britain’s commitment to globalisation continued to be driven the City of London. While this commitment did exist, in the early 1920s it was not driven by the chronically weakened merchant banks.

The crisis of 1931 together with earlier financial shocks such as the Wall Street crash and the banking failures in Central Europe have also been extensively covered in the historiography. The recovery experienced by some of the merchant banks by the mid-1920s would be brought to an abrupt end in 1931. Harold James has argued that the 1931 crisis was fairly inevitable, originating from the fragility of banking institutions. This book will demonstrate that the financial crises of 1914 and 1931 were catalysts that exposed existing weaknesses already embedded in the merchant banking sector.

British multinational banking and trading companies over the nineteenth and twentieth centuries are comprehensively covered in two works by Geoffrey Jones. He defines multinational banks as those with
branches or affiliates in more than one country. This definition effectively excludes the merchant banks, so they are not covered directly in these works. Nevertheless, Jones acknowledges the importance of the merchant banks especially in financing international trade in which they had first-mover advantages particularly in trade with the USA.\textsuperscript{50} He has argued that these advantages limited the options for British joint-stock banks operating overseas, but he has failed to acknowledge that these advantages became disadvantages for the merchant banks as American banks started to compete with them in the interwar period in both the American market and, more importantly, in continental Europe. This competition forced some merchant banks to concentrate on continental European business and in doing so raised their exposure to failures in Central Europe.

Kathleen Burk has taken Anglo-American relationships as one of her main themes in her work on Morgan Grenfell.\textsuperscript{51} Europe’s huge dependency on American capital both during and after the First World War put the House of Morgan—J.P. Morgan & Co. and Morgan Grenfell—in a position of great advantage among the merchant banks. At the end of the Napoleonic Wars, Rothschilds had occupied a similar position as it had offices in Frankfurt, London and Paris, but the firm’s failure later to establish an American house has been described by Niall Ferguson as a “strategic error”.\textsuperscript{52} In contrast, Barings had established a close connection with the American firm Kidder Peabody as early as 1885. Barings’ links with Kidder Peabody helped the post-war recovery of its acceptance business until 1929 when the onset of depression reduced this business significantly.\textsuperscript{53} Schroders also benefited from the growth of dollar-based acceptances. By 1923, Schroders had established a new firm in New York, J. Henry Schroder Banking Corporation, which became known as Schrobanco.\textsuperscript{54} Schroders’ American business helped the London-based firm to survive during the depression and war years.

Adam Tooze has argued that the easing of bank reserve requirements by the American monetary authorities from 1916 to the 1920s was undertaken to aid America’s fragile banking system but led unintentionally to an increase in bank credit.\textsuperscript{55} Surprisingly, there has been limited coverage in the historiography of the international consequences of American monetary policies at this time. The increasingly loose eligibility rules for US dollar acceptances introduced unsound financial practices to the international money markets. In an article published in 1937, A. S. J. Baster maintained that the relaxed American credit
regime continued to have a significant effect on Germany’s financial instability up to the crisis in 1931.\textsuperscript{56} Priscilla Roberts has shown that these unsound practices had their roots in American efforts to finance the Allies’ war effort during the First World War.\textsuperscript{57} These practices may have resulted in British banks taking more risks to maintain their market share. Writing about Schroders, Roberts stated that in 1929–1930 the firm had assumed additional risk by extending its German business as the partners believed that a default by Germany would not be allowed to happen as its economy had become one of the largest in the world.\textsuperscript{58} This claim would suggest that risks were knowingly taken in the belief that government action would safeguard the firm’s position—a clear case of moral hazard. Olivier Accominotti has demonstrated how the crisis of 1931 spread to the London market through those merchant banks exposed to Germany in their acceptance and short-term credit business. He has also shown the impact on those firms most severely affected.\textsuperscript{59} However, the historiography does not contain a detailed financial analysis to show the huge risks being taken by some merchant banks by 1930. This gap will be addressed in this book.

Although Rothschilds’ lack of an American base limited its opportunities, it was active in securities issuance in partnership with other City firms in the 1920s and 1930s, including a syndicate with Schroders and Barings.\textsuperscript{60} It also conducted issues in conjunction with Lloyds Bank, the Westminster Bank and the National Provincial Bank. Rothschilds was unfortunately involved in lending to some of the most unstable regimes of the interwar period. Ferguson has described its issues of the 1920s as “among the most disastrous investments of modern times”\textsuperscript{61} Neil Forbes has argued that a number of these issues in Central and Eastern Europe were undertaken to provide support to successor states and were based on humanitarian concerns as well as a result of path dependency.\textsuperscript{62} Nevertheless, the inability of some firms to adapt to changing circumstances and to seize new opportunities was a major drawback, especially in the light of the continual flow of new competitors.

The historiography contains various works that argue that the City had undue influence in the setting of economic policy, forming a self-perpetuating community of special interests.\textsuperscript{63} Such works are part of a broader critique of the role of the City, especially with respect to Britain’s supposed national decline.\textsuperscript{64} A collection of essays edited by Michie and Philip Williamson about the City’s relationship with the British Government provides good coverage of the interwar period.\textsuperscript{65} In
this volume, Boyce deals with the City’s involvement with the return to, and ultimate withdrawal from, the gold standard. He has argued that the City had significant influence over the decisions about sterling. On the other hand, Tooze has pointed that returning sterling to its pre-war gold parity had little to do with Britain’s international prestige or its adoption of conservative monetary policies; it was mainly an attempt to maintain Britain’s good credit in international markets.

For sterling to return to the gold standard at its pre-war parity meant high-interest rates and restrictions on capital exports; neither of which helped the businesses of the British merchant banks. The volatile post-war foreign exchange markets provided the merchant banks with good opportunities to supplement their traditional sources of income which were under pressure. While smaller firms such as Japhets, Seligman Brothers and Samuel Montagu regarded foreign exchange dealing as a core activity, it was also not unimportant to some of the larger firms. For instance, Schroders established a foreign exchange department in 1920 that made a good contribution to its profits, but after 1925, such contributions were inevitably much smaller. Similarly, Kleinworts’ foreign exchange department expanded rapidly in the early 1920s, comprising forty to fifty people, but as currencies began to stabilise, there was insufficient profit so the department was closed in 1927. This book will demonstrate that a closer examination of evidence often contradicts generally held views such as the extent of the City’s influence and its role in setting economic policy.

Indeed, the term “the City” can be misleading. It is most often treated as a synonym for City-based banks. However, even this usage, especially when applied to the interwar period, fails to distinguish between the traditional City represented by the BoE and the merchant banks, and the emergent City dominated by the large clearing banks. The relationship between these two groups was often quite complex. The growth of joint-stock banking, both domestically and overseas, would in particular have a major impact on the merchant banks.

There has also been an extensive literature about financial elites, often targeted at the merchant banks, especially the works of Youssef Cassis and Michael Lisle-Williams. Cassis’ research mainly deals with the period before 1914, while Lisle-Williams’ articles have been written from the perspective of a social scientist in mid-1980s Britain. These works generally suffer from two main shortcomings. First, the City’s apparent cohesion is based on its participants’ social connections such as...
public-school networks or family ties through marriage, but such links did not necessarily result in mutually supportive businesses. Generally, the merchant banks tended to be fiercely independent and rarely supported each other unless there was a broader issue in question such as the risk of financial contagion. Secondly, misleading conclusions can be drawn about the interwar merchant banking sector by relying solely on the archival records and historiography of those firms that survived. Greater insights can be obtained by considering the circumstances of those firms that did not survive. This book will provide fresh perspectives on interwar financial policy by clearly delineating the different types of financial institution, by considering the drivers behind financial policy and by recovering, as far as possible, the histories of long-forgotten merchant banking firms.

The merchant banks’ involvement with the domestic economy has been another area of debate in the historiography. R. T. P. Davenport-Hines has referred to the merchant banks’ preoccupation with foreign loans, while Michael Collins has questioned whether domestic industry actually suffered as a consequence of capital being deployed overseas. Although Morgan Grenfell has been described by Burk as being one of the first merchant banks to focus on securities issuance for domestic firms, both industrial and commercial, this book will show that the merchant banks had a much greater involvement in the domestic economy during the interwar period than is often appreciated.

The activities of corporate finance and investment management would form the core business of some of the merchant banks that survived into the late twentieth century. Schroders, for example, became involved in domestic issues and corporate finance in the interwar period. By 1926, it had established an Investment Department to undertake investment management activities. One of the new entrants in the period, Warburgs, would become one of the most successful firms in the middle of the twentieth century. In Ferguson’s biography of the firm’s founder, Siegmund Warburg, he has cited Warburg’s view that merchant banking would require experienced people, rather than substantial sums of capital, to provide financial advice—what Warburg called Vermittlung or mediation. Warburg insisted on keeping the firm’s capital very liquid, despite the cost of such a risk-averse approach. His aim was to have a low-risk, service-based business that would produce solid, rather than spectacular, profits. It will be demonstrated that this was a path to survival through troubled times.
There has also been a lack of coverage of the merchant banks continuing involvement in mercantile activities after 1914. Chapman and Jones have both dealt with British mercantile houses, although Chapman’s work only covers the period to 1914. Jones has stated that some of these houses evolved into merchant banks over a long period of time and usually under circumstances unique to the firm. Furthermore, he has acknowledged that there was often not a clear distinction between merchants and bankers with some firms spanning both worlds such as Antony Gibbs in Latin America and Wallace Brothers in the Far East. However, his claim that a “crude distinction” could be made between firms that evolved into bankers and those that remained merchants based on “ethnic origins” is questionable. The growth of local banking capacity, especially of British overseas banks, played an important role, particularly when linked to imperial developments. Gary B. Magee and Andrew S. Thompson have explored these developments in detail. Other works have dealt with investment in the British Empire, but tend to be limited to the period before 1914 and do not deal specifically with the merchant banks’ role in this area. Nevertheless, there are histories of specific firms with strong mercantile connections that provide some good background material, including recently published works on Arbuthnot Latham and Jardine Matheson, although most of these are published by the firms concerned.

There are clearly gaps in the historiography of the merchant banks in the interwar period. While some topics such as financial elites, domestic investment and deglobalisation have received a fair amount of attention, merchant banking in the interwar period has generally been under-researched. This book aims to provide a better understanding of the challenges faced by this important part of the financial services sector during a period of great upheaval and to examine the responses adopted that enabled some firms to survive.

Archival Sources and Research Methods

The historiography of the merchant banks in the interwar period has been shown to have gaps and limitations. My research has therefore aimed to focus, where possible, on the use of archival evidence or other primary records. This approach has not been without its difficulties, including restrictions on access and the fragmentary nature of some sources.
Some of the larger merchant banks now have extensive archives staffed by professional archivists together with online access to some key documents. Both Rothschilds and Barings belong in this category. However, researchers in the Rothschilds archives are not usually allowed access to materials later than 1930, while my research at the Barings archives was limited to the extent that some documents had sections redacted. The close connection between Morgan Grenfell and the American house of J. P. Morgan provided a good opportunity for an alternative perspective. In addition to Morgan Grenfell’s own archive in London, which also includes the records of Cull & Co. and Yule Catto, the archives of the Morgan Library & Museum in New York have extensive correspondence between the two Morgan firms, providing an American perspective on interwar Britain.

There are also large archives for some less well-known firms. The London School of Economics holds a vast collection for Wm. Brandt’s Sons for the period 1814–1957, comprising 700 volumes of accounting records. Unfortunately, such a huge amount of data is virtually unmanageable for most researchers. In addition, the University of Nottingham holds correspondence and commercial circulars for this firm, but the records for the period under consideration are limited to bound volumes of letters, especially in respect of its Russian business, for 1915–1919. For some firms, there is therefore a huge amount of information, but most of it does not cover the twentieth century or access to records for this period is restricted.

Different frustrations occur when trying to access the records of some firms—both those that are well known and those that are largely forgotten. For example, the archives of Schroders have recently begun to be organised with the help of a professional archivist, but, apart from financial statements and prospectuses for issues undertaken by the firm, records for the interwar period have largely been lost or destroyed. More information is available on Schrobanco, its New York-based business in the period, and Helbert Wagg, which merged with Schroders in 1962. Similarly, the records of Antony Gibbs held at the London Metropolitan Archives (hereafter LMA) are very rich for periods before the First World War, but fairly sparse for the interwar period. Nonetheless, in comparison with these firms, the archival records of other firms are either fragmentary or non-existent.

Limited information has been found at the LMA about such firms as Frühling & Goschen, Guinness Mahon and Ralli Brothers, whereas information found on other firms at the National Archives (hereafter TNA) has sometimes been based either on bankruptcy records such as
those of Boulton Brothers or dissolved company records such as those of Chalmers Guthrie and Arthur H. Brandt. Such records provide some background to the activities of these firms, but do not disclose the decision-making processes that may have contributed to their failure. Other sources of information have therefore had to be sought out.

Since many of these firms did not deposit their records in an archive, evidence is therefore often tangential rather than direct. The records of the BoE and those of the Treasury have been particularly useful in this respect as have the surviving records of the AHC held at the LMA. The Treasury’s records held at TNA have proved to be an excellent source to help understand the treatment of those firms assisted by the BoE at the outbreak of war in 1914 and afterwards. The BoE’s lengthy closure period has occasionally made this research quite frustrating when only one side of correspondence is readily available. Further information might have been obtained by means of a request under the Freedom of Information Act 2000, but this approach is necessarily restricted to specific enquiries, which are likely to arise only from incomplete information from other sources. For example, the minutes of the BoE’s Committee of Treasury in July 1931 relating to the rescue of Lazards were alluded to by Sayers, but full details were obtained by another researcher only as a result of a Freedom of Information request.

The papers of Benjamin Strong, the first governor of the Federal Reserve Bank of New York, have provided an alternative perspective on a number of issues in the early interwar period, especially the tension between the BoE and the large clearing banks. Copies of the Acceptance Bulletin of the American Acceptance Council have also been accessed at the New York Public Library. This journal has afforded information on the growth of the US dollar acceptance as well as an alternative view on developments in the London money markets.

It is easy to assume that the surviving merchant banks are representative of the sector as a whole. Such an erroneous assumption can then be compounded by the distortion of viewing the past through the history of these firms only. The history of the failed and long-forgotten firms is therefore vitally important for a fuller understanding. One merchant banker recalled the highly competitive nature of the interwar City. He wrote of firms that

have long since merged, been absorbed, or ceased to exist, but for the record, and for sentimental reasons in case they strike a chord somewhere it might be worth mentioning some of them: J. Stamm & Co., London
Eight of these firms have been included in this study. Many more firms have been discovered, and an attempt has been made to recover their lost histories from the fragments of information left about them. Brief profiles of over one hundred merchant banks that operated in the period from 1914 to 1939 are given in an appendix.

Information about these long-forgotten firms provides a much richer insight into the merchant banking sector of the interwar period than that which can be obtained solely from the archives of the surviving firms. Firms such as Horstman & Co., Arthur H. Brandt and A. Rüffer & Sons were founder members of the AHC in 1914, but all failed in the interwar period and have left few records. John Horstman founded his firm in 1802. It was among the most prestigious firms in mid-nineteenth-century London. For instance, in 1820 the committee elected by the merchants of London to handle trade negotiations with the Netherlands included N. M. Rothschild, Charles Cazenove and John Horstman—two names that survive in the City today and one long forgotten. Other forgotten firms include J. C. im Thurn & Sons, which suspended payments in 1875 but later recovered to fail again; Pinto Leite & Nephews, which specialised in trade with Portugal; de Pury Gautschi, which had Swiss origins and left its own hallmark in the silver trade. These firms failed in the interwar period. Other firms like Sale & Co. survived much longer but are now essentially unknown. This firm was established in 1907 in Yokohama as a foreign merchant by Charles Vincent Sale, who would later become the governor of the Hudson’s Bay Company. The firm survived until 1965 when it failed leaving little trace. What research strategies have been used to recover the history of these firms?

Archived copies of The Times and The London Gazette have proved to be a valuable source for the interwar period. Changes in partnerships or corporate structure were usually reported in these papers. Such reports have provided a key to unlock further information by providing the names of individual partners or address details. The Bankers’ Returns to the Inland Revenue, which were published annually in The London Gazette, have proved to be very helpful in this respect. Similarly, records held at the BoE or other institutions have also shed some light on these lost firms. For example, the Hudson’s Bay Company’s archives held at TNA have been used to obtain some information on the interwar
activities of Sale & Co. Furthermore, biographies, diaries and memoirs have added some colour to these business records. One such source that has proved extremely useful is Montagu Norman’s diaries, which are provided online by the BoE; although at times, some detective work has been necessary to fathom the shorthand references or visitors’ names when they are referred to simply by their initials.

The research for this book has identified the heterogeneous nature of the merchant banking sector in the interwar period. It has highlighted the narrowing of the available options for many firms faced with difficult choices against a background of increasing competition and changing markets.

**Structure of the Book**

This book may be divided into four parts: *Prelude, Challenges, Responses* and *Endgame*. The heart of the book deals with the interwar period and, as far as possible, is based on archival research.

Chapter 2—*End of the Golden Age*—may be regarded as a *Prelude* to the main body of the book. The outbreak of war in 1914 is often represented as the end of a golden age for the merchant banks, whereas it will be argued in this chapter that the golden age was by 1914 already severely tarnished. The outbreak of war acted as a catalyst that exposed existing weaknesses already embedded in the merchant banking sector especially as a result of increasing competition from joint-stock banks, both domestic and foreign. The high-risk strategies adopted by the market leaders, Barings and Rothschilds, which in the case of the former almost resulting in its failure in 1890, will be considered. The response of the merchant banks to new opportunities both domestic and in the emerging markets will be examined. A detailed analysis of securities issuance immediately before the outbreak of war together with a declining market share in acceptance finance will be used to highlight the deteriorating position of the merchant banks before the outbreak of war in 1914.

Chapters 3–7 consider the *Challenges* being faced by the merchant banking sector between the financial crises of 1914 and 1931, and their aftermath, including the continuing growth in both international and domestic competition, and the rise of New York as an international financial centre.
Chapter 3—*Thunderbolt from a Clear Sky*—deals with the outbreak of war in 1914, which exposed the poor quality and high geographical concentration of the acceptance business of some firms. The inconsistent and, in some cases, inequitable treatment of firms of foreign origin by the City establishment is examined. The organisational frailty of many merchant banks was also exposed at this time with many firms still operating as family-controlled partnerships often within narrow ethnic groups. The war thereby hastened the failure or slow decline of a number of these merchant banking firms.

Chapter 4—*Favourable Treatment*—challenges the historiographical view that the City received favourable treatment and had undue influence during the 1920s. The post-war recovery of the merchant banks and their main competitors will be examined using archival evidence, especially the Treasury’s records held at TNA. By examining the treatment of those merchant banks that were experiencing difficulties at the time, including special arrangements, it will be seen that the fate of the merchant banks was secondary to broader policy considerations.

Chapter 5—*Traditional Preserves*—aims to reconcile what may seem to be inconsistencies in the policies adopted by the BoE during the interwar period. There was official approval for new banking institutions that competed directly with the merchant banks; while at the same time, there were attempts to control the activities of the larger clearing banks. A rationale for this approach will be provided.

Chapter 6—*Unsound Practices*—examines the response of merchant banks to growing international competition especially from New York as it became London’s chief rival in international banking. It will be shown that the rise of the US dollar acceptance brought unsound practices into the international money markets that were most likely adopted by the merchant banks, developing high-risk strategies to deal with increasing competitive pressures.

Chapter 7—*Road to Crisis*—explores whether the merchant banks took unacceptable risks to retain their market share. Despite growing concerns about the European situation and an increase in commercial failures, it will be demonstrated that a number of merchant banks adopted high-risk strategies. Their exposures will be revealed by examining the available financial data, including balance sheets and bad debts. The official response will also be considered to determine the nature of any support provided by the BoE and to assess whether there was moral hazard in the behaviour of the merchant banks.
Chapters 8–10 examine the Responses of some of the merchant banks as they started to adapt their business models as a means of dealing with the challenges that they faced. Their responses often evolved with changing circumstances but would enable a few firms to survive into the second half of the twentieth century.

Chapter 8—Domestic Finance—questions the widely held view that Britain’s alleged economic decline in the 1930s was a result of the failure of financial institutions to support British industry. The involvement of the merchant banks and other financial companies with British industry in the interwar period will be surveyed, including the provision of acceptances to British firms and the growth of instalment finance. Since much of the historiography is dominated by the problems of the staple industries and the alleged inadequate response of the City, the role played by the merchant banks in the industrial rationalisation movement will be assessed.

Chapter 9—Insular Capitalism—evaluates the provision of long-term finance by the merchant banks, particularly to the new industries. The involvement of the merchant banks in the emerging electrical supply industry will be considered in detail. In view of the contemporary concerns about the lack of finance for smaller businesses—the so-called Macmillan gap—the City’s response, including the fledgling growth of investment management activities, will also be reviewed.

Chapter 10—Mercantile Roots—examines the mercantile activities of the merchant banks in the increasingly difficult economic environment of the interwar period. Some firms remained true to their mercantile roots, either by continuing as international traders or by becoming specialist operators within trading conglomerates. Such models were common in South America and the Far East. These variants on the merchant banking model are no less relevant than those that focused purely on financial activities, enabling some firms to continue their mercantile activities beyond the interwar period.

Chapter 11—Endgame—aims to trace the continuing evolution of those merchant banks that survived the interwar upheavals. The transformation from high-risk, capital-intensive activities in favour of lower-risk, advisory services continue to be played out. While geopolitical change impacted some of the mercantile focused firms, the larger surviving merchant banks faced a difficult strategic choice. Those merchant banks that followed high-risk strategies often with inadequate capital backing and weak management controls inevitably disappeared. By the end of the millennium, the surviving firms were focused on investment management and corporate finance advisory services.
It is my contention that the transformation of merchant banking, which enabled some firms to survive for a further fifty years or more beyond the end of the Second World War, originated in the interwar period in response to the tough economic climate. Many firms were unable to adapt and did not survive. The business models adopted by successful firms were usually based on advisory services rather than risking the firm’s capital. This may have become obvious by the 1990s, but it was an approach that gradually evolved during the interwar period. Nevertheless, some firms learnt the lessons of the interwar period, only to forget them in the later decades of the twentieth century.

Many merchant banks failed in the interwar period, and a number of these firms left little trace of their activities. Consequently, there is a danger that the history of merchant banking in this period becomes either the story of the survivors only or a dead zone for researchers. A significant effort has therefore been made to understand the activities of as many merchant banks as possible by recovering information on lost firms. The aim is not to produce individual histories of these firms, but to identify the common themes that determined longevity. These themes include better risk management, tighter financial controls and, most importantly, a move towards financial advisory and agency activities.

It is hoped that this book will fill a gap in the historiography with respect to merchant banking in the interwar period—a period that determined the survival or failure of many firms in this important sector.

**Notes**


7. Apart from in quotations or where there may be some ambiguity, a shortened name will normally be used for firms and commas will be excluded. For example, Baring Brothers & Co. Limited will be referred to as Barings. This usage will not, however, be applied to complex names such as London, County & Westminster Bank Limited. In such cases, an abbreviation will be noted in the text when the name first appears.


10. Even allowing for the financial crisis of 2008 and its aftermath, financial services has been one of the success stories of post-industrial Britain. See: London’s Competitive Place in the UK and Global Economies, Research Report by Oxford Economics (London, 2011).


13. Many private banks had their origins in wholesale trades. See: L. S. Pressnell, Country Banking in the Industrial Revolution (Oxford, 1956), pp. 47–56. The following important private banks had trade origins: Leyland & Bullins (Thomas Leyland was a shipowner and slave trader based in Liverpool; the successor bank is now within the HSBC Group); Jones, Loyd & Co. (Jones Loyd were originally tea traders based in Manchester; the successor bank is now within the RBS Group); Gurneys, Birkbecks, Barclays, & Buxton (the Gurney family was involved in the cloth trade; the successor bank is now within the Barclays Group); and Stevenson & Salt (John Stevenson was originally a mercer; the successor bank is now within the Lloyds TSB Group). For a specific example, see: Barbara M. D. Smith, ‘The Galtons of Birmingham: Quaker Gun Merchants and Bankers, 1702–1831’, Business History, Vol. 9, No. 2 (1967), pp. 132–150.


15. For earlier developments, see: Kindleberger, Financial History (1985), especially Chapters 2 and 3.


18. Glyn, Mills is an interesting case. Founded in 1753, it is one of the few survivors of upheavals in the private banking sector in the 1830s. It would have originally been a private bank that undertook extensive merchant banking activities. See: Roger Fulford, Glyn’s 1753–1953: Six Generations in Lombard Street (London, 1953), pp. 108–136, and Appendix IV; and The Times, 8 November 1927, ‘The Story of a Great Private Banking Institution’.


34. For example, R. H. Brand, *War and National Finance* (London, 1921); Adam Willis Kirkaldy (ed.), *British Finance During and After the War, 1914–1921* (London, 1921); and Hartley Withers, *War and Lombard Street* (New York, 1915).


41. A credit default swap (CDS) is a derivative contract that transfers the credit exposure on debts between parties. The purchaser of the swap makes payments up until the maturity date of the contract to the seller of the swap. In return, the seller agrees to pay off a third-party debt if this party defaults on the loan. A CDS is considered to be insurance against default on a debt.

42. In the USA, in 1933 the Glass-Steagall Act segregated commercial and investment banking. No equivalent legislation was introduced in the UK.
The repeal of the Glass-Steagall Act in 1999 has been linked to creating the circumstances that led to the 2007/2008 financial crisis.


64. A good summary of the arguments is provided in Richard English and Michael Kenny, *Rethinking British Decline* (London, 2000).


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Records of the Office of the Commissioners of Bankrupts
Treasury Papers

The Rothschild Archive, New Court, St Swithin’s Lane, London, EC4 N 8AL
Digitised Collections:
The Rothschild Archive, Loan Department. Available at: https://www.rothschildarchive.org.

UCL Special Collections, Gower Street, London, WC1E 6BT
Balfour, Williamson & Co. Papers
SECONDARY SOURCES

Journal Articles and Other Published Papers


**Chapters in Collective Works**


**Books**


Kirkaldy, Adam Willis (ed.). *British Finance During and After the War, 1914–21, Being the Result of Investigations and Materials Collected by a Committee of Section F of the British Association, Co-ordinated and Brought up to Date for the Committee by A.H. Gibson* (London: Sir Isaac Pitman & Sons, 1921).


**Unpublished Works**


**Newspapers**

*The London Gazette*

*The Times*
The outbreak of war in August 1914 is seen by some historians as bringing to an abrupt end a long period of development in international affairs both economic and cultural. An age referred to by the French as *la belle époque* or more prosaically by others as the age of the first globalisation.¹ This belief in a discontinuity caused by the First World War is particularly prevalent among financial historians. The second volume of David Kynaston’s *The City of London* is entitled *Golden Years 1890–1914*. He has argued that this age was “the City’s classic period”.² In the same vein, Charles P. Kindleberger wrote that in 1914 the development of European financial institutions experienced a “marked discontinuity”.³ Similarly, Youssef Cassis has claimed that for most private banks engaged in international finance experienced a “golden age” from the late nineteenth century until the outbreak of the First World War.⁴

Not all historians accept this glittering portrayal of the pre-war decades especially with respect to the merchant banks and other private banking businesses. For instance, Stanley Chapman has noted the relative decline of the established merchant banks before 1914.⁵ Similarly, Cassis has conceded that during this time, despite being in his view a golden age, the merchant banks were losing acceptance business to commercial banks both domestic and foreign.⁶ Stefano Battilossi has argued that the main reasons for these changes were the development of new institutions and innovation in financial products, which caused a decline in specialist financial institutions such as European *haute banques* and British merchant banks.⁷
There is therefore some contention in the historiography about whether the outbreak of war in 1914 represented the end of a golden age for the merchant banks or simply acted as a catalyst that exposed existing weaknesses already embedded in this sector. In this chapter, it will be shown that even before the outbreak of war in 1914 the established merchant banks faced increased competition from joint-stock banks and from other new financial institutions. The response, especially by the market leaders, Barings and Rothschilds, to this competition will be considered by examining specific missed market opportunities especially in emerging markets. It will be shown that high-risk strategies were pursued by some of the established merchant banks as highlighted by the Barings Crisis of 1890. Analysis is presented about competition in the pre-war securities issuance and acceptance finance markets that shows the high geographical concentration of the merchant banks at this time as well as their missed opportunities.

**Market Leaders**

During the nineteenth century, Barings and Rothschilds were regarded as the City’s most important banking houses. Did these two market-leading merchant banks enjoy a golden age in the years leading to the outbreak of war in 1914?

In 1890, Barings came close to collapse. The firm had been established in 1762 and was at the heart of the British establishment—at the time of the crisis, three partners were peers of the realm. The firm had overextended itself in Argentina and needed to be rescued by the Bank of England (hereafter BoE) and a consortium of other banks. This was not the first time that a major financial institution had been in serious trouble, but the reaction in this instance was unusual. In contrast to financial crises earlier in the nineteenth century, the fear of contagion within the financial system produced a concerted effort to rescue Barings. The firm’s commitments to Latin America between 1850 and 1890 were heavily concentrated in Argentina and Uruguay. Early in 1866, Barings arranged a loan of £1.25m for Argentina, but, as a result of the collapse of the discount house Overend & Gurney and the ensuing market turmoil, Barings ended up with a large holding of the loan on its own books. Ten years later in 1876, Barings again ended up with a large holding of Argentine bonds. It made large purchases of Argentine bonds in the market in an unsuccessful attempt to support the market
price. Barings later compounded these mistakes by becoming involved with a Buenos Aires trading house called Samuel B. Hales & Co., which by 1879 was close to collapse and in danger of taking the provincial government with it. Barings came to the rescue by extending credit to Hales and in return ended up with a country house, two ranches and a large quantity of cattle in Argentina. Despite these experiences, Barings continued to have a major commitment to Argentina.

During the four years before 1890, Barings issued almost £15m in loans for the Argentine government. It also issued two loans for the City of Buenos Aires, three loans for the Western Railway of Santa Fe Limited and loans for the Great Southern Railway of Buenos Aires and the Curamalan Land Company as well as share capital for the Buenos Aires Water Supply & Drainage Co. In addition, in 1888 it raised £3.5m for the Government of Uruguay and in 1889 almost £1.3m for the City of Montevideo. Barings also went into a joint venture with Hales, securing the concession for the waterworks and drainage system of Buenos Aires, which then committed the firm to issue debentures to pay instalments for the concessions given. However, Barings were unsuccessful in placing most of the £2m of share capital of the Buenos Aires Water Supply & Drainage Co. so the chances of raising further loan finance for the company were remote.

In November 1890, there was a political crisis in Argentina. Its government turned to Barings in the hope of raising further loans, but the firm was at this stage on the verge of bankruptcy. A statement of Barings’ position at that time showed liabilities of £21m, of which £16m were acceptances, against assets of almost £25m. The pressing issue was a lack of cash to meet the acceptance liabilities as its assets were mainly illiquid, including unsaleable Argentine and Uruguayan government bonds. A guarantee fund of over £17m was raised with contributions from the BoE, the joint-stock banks and various financial institutions. Within four years, the guarantors had been repaid. This bailout was the first meaningful recognition of the interconnectedness of the financial system. Some firms were regarded as too important to Britain’s international reputation to be allowed to fail. This policy would recur later in the interwar period.

In the period 1890 to 1893, Rothschilds incurred losses after appropriations of £1.89m. Niall Ferguson has raised the interesting question of why Rothschilds did not go the same way as Barings. He has provided two main reasons. First, Rothschilds managed to avoid holding
large quantities of its bond issues itself, and secondly, its capital base was larger than Barings and therefore it was able to absorb losses to a greater extent. In 1890, Rothschilds’ London house had capital of £5.9m, whereas Barings had capital of £2.9m. Ferguson has written with reference to this period that “Rothschilds were not Barings; nor was Brazil Argentina”. However, there were similarities between the manner in which Barings and Rothschilds conducted their issuing business. Both houses remained committed to servicing high-risk South American countries—Argentina by Barings and Brazil by Rothschilds. Between 1893 and 1914, Rothschilds issued bonds for the Brazilian government with a nominal value of £120.2m. In addition, in 1873 Rothschilds issued sterling bonds with a nominal value of £3.7 for a Brazilian railway, the Western of Minas Railroad, and in 1906 and 1910 two tranches of £1m each for a Brazilian shipping company, Companhia Lloyd Brasileiro. The securities issuance business of both Barings and Rothschilds was highly concentrated geographically, and some large losses were sustained. Had these two prestigious merchant banks—the market leaders—adopted high-risk strategies in this part of their business?

Michael Edelstein has shown that during the period from 1870 to 1913 overseas securities produced a higher return on average than domestic securities: 5.72% against 4.60% on average. While these figures may have provided a justification for concentrating on overseas issues, the higher return was actually a reflection of the average risk premium payable on overseas investments. Moreover, L. E. Davies and R. A. Huttenback have identified that some overseas investments were viewed as less risky than others. They found that between 1882 and 1912 colonial governments consistently paid lower interest rates than other government on capital issued in the UK. Similarly, Ferguson and Moritz Schularick found evidence that membership of the British Empire reduced risk premiums by up to 60% between 1890 and 1913. In the light of these findings, it is surprising that Barings and Rothschilds had an increasing exposure in their securities issuance businesses to higher risk countries.

Tables 2.1 and 2.2 show the geographical spread of the issues dealt with by Barings and Rothschilds, respectively, between 1900 and 1914. In the period from 1910 to 1914, almost 85% by value of issues dealt with by Barings were for the USA and Argentina, and almost 83% by value of issues dealt with by Rothschilds were for Brazil and Chile. Just before the war, Rothschilds also deal with issues for Hungary and,
Table 2.1  Issues by Baring Brothers by country, 1900–1914

<table>
<thead>
<tr>
<th>% value of issues by country</th>
<th>Number of issue by country</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>25.81</td>
</tr>
<tr>
<td>Argentina</td>
<td>32.46</td>
</tr>
<tr>
<td>Russia</td>
<td>0.00</td>
</tr>
<tr>
<td>Japan</td>
<td>32.82</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.00</td>
</tr>
<tr>
<td>Ottoman Empire</td>
<td>0.00</td>
</tr>
<tr>
<td>UK</td>
<td>8.90</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.00</td>
</tr>
<tr>
<td>China</td>
<td>0.00</td>
</tr>
<tr>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Total estimated value (£’m)</td>
<td>12.985</td>
</tr>
</tbody>
</table>

Source: Author’s table based on information in the Baring Archive, Digitised Collections, Prospectuses
Table 2.2  Issues by N. M. Rothschild by country, 1900–1914

<table>
<thead>
<tr>
<th>% value of issues by country</th>
<th>Number of issue by country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>91.20</td>
</tr>
<tr>
<td>Chile</td>
<td>4.77</td>
</tr>
<tr>
<td>Austria</td>
<td>0.00</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.00</td>
</tr>
<tr>
<td>Japan</td>
<td>0.00</td>
</tr>
<tr>
<td>USA</td>
<td>0.00</td>
</tr>
<tr>
<td>Canada</td>
<td>0.00</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.81</td>
</tr>
<tr>
<td>UK</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td><strong>100.00</strong></td>
</tr>
<tr>
<td>Total nominal value (£’m)</td>
<td>31.470</td>
</tr>
</tbody>
</table>

Source: Author’s table based on information in the Rothschild Archive, Loans Department.
together with Schroders and others, for Austria. Neither Barings nor Rothschilds were reducing the risk in their issuing business in the period leading to the outbreak of war—quite the reverse.

The two merchant banks that were renowned as the market leaders therefore had adopted high-risk strategies in the key activity of securities issuance. They both concentrated their business in financially vulnerable South American countries. As will be shown, their failure to gain new business in some of the emerging states was mainly owing to increased competition. Inertia rather than caution seemed to dictate their business decisions. Did other merchant banks also adopt similar high-risk strategies in this period?

**Emerging Markets**

Satisfying the demand for capital by industrial and commercial companies presented a major opportunity. Kleinworts became involved in issuing American industrial shares in the early twentieth century in conjunction with the New York firm of Goldman Sachs. It was involved in issues for the American Smelting and Refining Company, and the Studebaker Company. In this regard, Kleinworts was unusual among the established houses. Other firms involved in these activities were often stockbroking firms or merchant banks that had evolved from stockbroking firms. For example, in 1905 the upcoming firm of Japhets dealt with the issue of United Cigar together with Goldman Sachs. Japhets shared the business with another dynamic firm, Helbert Wagg. In 1906, Japhets and Helbert Wagg underwrote a large amount of the Sears Roebuck issue, which again had been introduced by Goldman Sachs. Participation in further American issues followed, including issues for May Department Stores and Woolworths.

British investment in Canadian industry reached its peak during the merger boom of 1909–1913. By the beginning of the twentieth century, Canada had become Britain’s largest borrower. It is estimated that Canada absorbed about a third of British lending between 1902 and 1914. Canadian investment banks based in Toronto and Montreal dealt with many of these issues and then established their own houses in London to handle distribution. Among these financiers was Max Aitken, who later became the newspaper magnate Lord Beaverbrook. His Royal Securities Corporation was responsible for some of the largest Canadian flotations in London. Other Canadian financiers who would play important roles
in interwar industrial issues in Britain were James Dunn, who founded the merchant bank Dunn Fischer, and E. Mackay Edgar, who moved to London to join the new merchant bank Sperling & Co. Another Canadian, Edward R. Peacock, who became a director of the BoE in 1921 and of Barings in 1924, originally managed the London office of another Canadian investment bank, the Dominion Securities Corporation.33

One British merchant bank that participated in the boom in Canadian issues was Chaplin, Milne, Grenfell. The driving force behind this firm was Arthur Grenfell. He was very well connected, being a member of the Grenfell banking family. He was also married to the daughter of Lord Grey.34 Grenfell later launched the privately owned company, the Canadian Agency, to finance issues of mainly Canadian securities. He involved his younger brother, Riversdale Grenfell, in the business. Unfortunately, both firms would fail spectacularly in late May 1914.35 Not only did Arthur Grenfell lose everything, but his father-in-law was a heavy loser too. Grenfell’s younger brothers, the twins Francis and Riversdale, lost their entire fortune in the downfall.36

Another booming market that would come to grief was Russia. Concerns about the Russian money markets existed before the outbreak of war in 1914. In December 1913, the Russian Ministry of Finance introduced stricter supervision over banking institutions and took measures against stock market operators. It was reported in The Times that 1500m shares in Russian enterprises had been issued between 1906 and 1913 without considering mortgages and other bonds that had also been issued. Most of these securities were held outside Russia.37 Merchant banks such as Barings, Schroders and Wm. Brandt’s Sons had long conducted business in Russia, although Schroders and Wm. Brandts had reduced their exposure in the late nineteenth century. Between 1869 and 1894, Schroders’ acceptance business shifted away from Russia and Cuba towards Germany, the USA and the UK.38 While Wm. Brandts had also reduced its dependence on Russian acceptance business in favour of Germany and America, archival evidence shows that in 1914 the firm still dealt extensively with German firms in Moscow and English firms in St. Petersburg.39 Table 2.3 shows the firm’s main correspondents, those with more than fifty letters each, during the period January to June 1914. It would suggest that Wm. Brandts continued to have a significant exposure to Russia through German and English firms.
Barings also continued to retain extensive contacts with Russia. The firm had a close involvement with the Russian Imperial government during the late nineteenth and early twentieth centuries. However, during the period between 1907 and 1913, there were major changes underway in Russian financing. During his period, Russian sovereign loans were replaced by railway loans and municipal loans, which were often guaranteed by the Imperial government. These loans were essentially just another means of central government borrowing. Historian Jennifer Siegel has noted that this shift from sovereign loans was also accompanied by a change of financiers. Although Barings had issued a loan for the City of Moscow in March 1908 as well as the London issue of a Russian sovereign loan in January 1909, it was losing ground in this market. By late 1909, Barings decided to form a loan syndicate, which was to include Hambros and the following joint-stock banks: the London, City & Midland Bank (hereafter LCMB); Lloyds Bank; and Parr’s Bank. While these joint-stock banks had managed to issue Russian loans with other financiers, the Barings’ syndicate proved to be unsuccessful.

### Table 2.3 Main correspondents of Wm. Brandt’s Sons in Russia: January–June 1914

<table>
<thead>
<tr>
<th>In Moscow</th>
<th>In St. Petersburg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ferdinand Fulda, Moscow (in German)</td>
<td>Akt. Gen. der St. Petersburger Gelfabrik (in German)</td>
</tr>
<tr>
<td>Commerzbank J. W. Junker &amp; Co., Moscow (in German)</td>
<td>The “James Beck” Cotton Spinning Co., St. Petersburg (in English)</td>
</tr>
<tr>
<td>Krestovnikoff Freres, Moscow (in English)</td>
<td>Gerhard &amp; Hey, St. Petersburg (in English)</td>
</tr>
<tr>
<td>Moscowsische Disconto Bank, Moscow (in German)</td>
<td>J. Hoth Ropeworks Co. Ltd., St. Petersburg (in German)</td>
</tr>
<tr>
<td>Nicolsky Manufactory of Savva Morosoff’s Son &amp; Co. (in English)</td>
<td>Commerzbank J. W. Junker &amp; Co., St. Petersburg (in German)</td>
</tr>
<tr>
<td>Russisch-Franzoesisch Gummi-Gurtapercha &amp; Telegraphen Werke, Riga (in German)</td>
<td>L. Knoop, St. Petersburg (in German)</td>
</tr>
<tr>
<td>Ponfick, Ahrens &amp; Co., Moscow (in German)</td>
<td>New Cotton Mill, St. Petersburg (in English)</td>
</tr>
<tr>
<td>Stucken &amp; Co., Moscow (in German)</td>
<td>Russische Baumwoll-Spinnerei, St. Petersburg (in German)</td>
</tr>
<tr>
<td>H. Georg Schlichtermann &amp; Co. (in German)</td>
<td>A. Woelz, St. Petersburg (in German)</td>
</tr>
</tbody>
</table>

Source: Author’s table based on information in the Department of Manuscripts, University of Nottingham, Bt 1/3/1, Letters from Russia, January–June 1914; and Bt1/4/1, St. Petersburg Letters with Index, January–June 1914
Before the war, a number of new financial houses focusing on Russian investment were launched. In 1909, the Anglo-Russian Trust was formed with the aim of investing “English Capital in Russian securities”. The chairman of this trust company was Charles Birch Crisp, who proved to be a fearless competitor to the likes of Barings. Lord Revelstoke later described him as “coarse and underbred, with a bullying manner”. Personal insults may have given Revelstoke some comfort as Barings was increasingly marginalised by such new competitors. In 1911, the Anglo-Russian Bank was formed by a combination of English and Russian capitalists with the primary objective of acquiring an important interest in the Russian Commercial and Industrial Bank of St. Petersburg, which has 90 branches, sub-offices and agencies throughout Russia.

It changed its name to the British Bank for Foreign Trade in 1912. Later in 1911, the Imperial & Foreign Corporation was formed. It had illustrious directors such as Lord Balfour of Burleigh and Austen Chamberlain. Its objective was to carry on business related to financial corporations throughout the British Empire and abroad and in particular the creation of the Russian & English Bank with “unequalled opportunities for participating in Russian business”.

The Imperial & Foreign Corporation’s financial adviser was a newly formed merchant bank called Boulton Brothers. The firm was established in August 1907 by R. G. H. Boulton. From 1909, its business was entirely devoted to merchant banking, consisting of “the making of public issues for governments, corporations and ports, etc. on the London Market”. In July 1914, the firm contracted to issue two loans for St. Petersburg in the London Market. This was not particularly good timing, and, not surprisingly, by 1920 the firm had sustained a loss of £215,000 on the loans. While such new competitors for Russian business would suffer serious losses with the onset of war and later revolution, there is little evidence to suggest that the established merchant banks had prudently reduced their exposure to Russia ahead of war. It is more likely that competition had taken business from these banks, and as a consequence their exposure was reduced. Increased competition was also a major factor in other regions too.

In the Far East, the emerging power was Japan. In the Meiji period between 1868 and 1912, Japan evolved from an essentially feudal society
to become an industrial power. Japan’s rise to power created tensions in the region, leading to the Sino-Japanese War of 1894–1895 and the Russo-Japanese War of 1904–1905; Japan emerged victorious from both conflicts. Even though Britain signed an alliance with Japan in 1902, the trade and investment opportunities were not readily seized by the established merchant banks. While the Post Office London Directory for 1914 lists 59 merchants dealing in Japanese products, only two new merchant banking firms dealing in Japanese business emerged in this period. 51 Sale & Co. were foreign merchants in Yokohama until 1903. 52 In 1907, the firm was described as the “London House of Sale and Frazer, Ltd., of Yokohama, a company registered under Japanese law”. 53 The other merchant bank to emerge from Japanese trade was M. Samuel & Co. Its founder, Marcus Samuel, would be the driving force behind the establishment of Shell Transport & Trading. 54

In 1899, the Japanese government issued a £10m loan. It was unusual in so far that a joint-stock bank, Parr’s Bank, rather than a merchant bank, led the issuing consortium, which included the stockbrokers Panmure Gordon. The issue was a flop, mainly because of the threat of war in South Africa, but it left open the question of whether an established merchant bank would have done a better job. In 1902, the first yen-dominated loan outside of Japan was issued, raising £5.1m. It was handled by Barings in conjunction with the Hong Kong & Shanghai Bank (hereafter HSBC) and the Yokohama Specie Bank; it was a success. Further loans were raised by Japan during the Russo-Japanese War. Barings was in a difficult position as it had traditionally acted for the Russian government. While Barings therefore continued to operate behind the scenes, the American investment bank Kuhn Loeb took the lead, issuing further Japanese loans not just in London, but also in New York and in Germany. Whether the established merchant banks had been too cautious or had been constrained by commitments elsewhere, this market was quickly dominated by rival financial institutions. This pattern was to be repeated elsewhere.

A similar situation arose in China. In 1900, the failure of the Boxer Uprising, which was essentially directed against foreign influence in the country, led to an open-door economic policy. The HSBC had become the dominant bank in the region. It had dealt with loans for both the Japanese and Chinese governments. In the case of China, it handled loans for both the Imperial government and later, after the revolution of 1911, the new Republic. 55 During the first decade of the twentieth
century, there had been a strict pecking order when making loans to China. International consortia, involving banks from the major powers, dealt with these issues. HSBC held a monopolistic position as Britain’s sole representative until 1912.56

By 1890 the Chartered Bank of India, Australia & China had gained a similar position as the leading bank in India. Before 1912, it was the only potentially serious British rival to the HSBC in China.57 Nevertheless, it remained a secondary house in respect of Chinese loans.58 Other British banks tried to break the HSBC monopoly. A British consortium, comprising the Eastern Bank and the merchant banks: Schroders, E. D. Sassoon and Brown Shipley, tried unsuccessfully to get Foreign Office approval to conduct loan business in China. There was extensive correspondence between the Foreign Office and Lord Balfour of Burleigh, Chairman of the Eastern Bank. The official stance was steadfast support for HSBC. The view was that the Four Powers—Britain, the USA, France and Germany—were operating “under the conviction that the moment had come when it was politically expedient to strengthen the hands of the de facto administration in China against the forces of anarchy”.59 The Eastern Bank consortium eventually withdrew. Another British consortium was less accommodating.

In 1912, Birch Crisp formed a consortium that initially included Lloyds Bank; the London, County and Westminster Bank (hereafter LCWB); and the Capital and Counties Bank. He had negotiated a loan of £10m with the Chinese Republic’s London-based representative, Lew Yuk-Lin. The foreign secretary, Edward Grey, wrote that Birch Crisp “had acted in defiance of the declared policy of His Majesty’s Government”.60 Birch Crisp wrote a detailed letter to The Times with his version of events.61 He claimed he had been threatened by a Foreign Office official “of the dread consequences that would overtake disobedience”.62 While the first instalment of £5m was issued, pressure exerted on the Chinese government led to it breaching its contract with Birch Crisp. Eventually, the Chinese government paid him £150,000 in compensation for waiving his option to handle another Chinese loan for £25m.63 This episode demonstrated that not only there was growing competition in international finance from both British and foreign financial institutions, but also there was also a political dimension to be considered. The major international powers were using finance as a tool of foreign policy.64 In view of these difficulties facing the established merchant banks, did they seek out new activities to replace this lost business?
The advent of telegraphic communications provided the opportunity for arbitrage, whereby profits could be earned through short-term mismatches between the prices of securities and currencies in different markets by buying in one market and selling at a higher price in another. The established merchant banks treated such business with disdain. Gaspard Farrer of Barings wrote that it “requires a very special training and mind to do it successfully … [requiring] someone born in the Ghetto in Frankfurt”. Similarly, the merchant banker Robert Benson commented “[n]obody understands Arbitrage and Foreign Exchange unless born a Jew or an Armenian. These races do not even have to be taught such subjects: they understand them by the light of nature”. Such comments not only show the anti-Semitism rife in the City at this time, but also the dismissiveness in some quarters towards anything new. Nonetheless, emerging merchant banks such as Japhets and R. Raphael & Sons seized these opportunities. Indeed, Raphaels survived during the war on its arbitrage business with New York as its other business disappeared. With these missed opportunities and the growing competition plus increased risk in overseas activities, was there a shift to focus on domestic opportunities?

In view of the extensive involvement of the merchant banks in raising finance for overseas infrastructure projects, it might be expected that they would be involved in similar domestic projects. Somewhat surprisingly, apart from a few exceptions, there was little enthusiasm at this time among the established firms for domestic issues. Before 1890, Barings dealt with some large domestic issues, including the brewers Arthur Guinness, Son & Co., Combe & Co., and Whitbread & Co. It led a syndicate for the flotation of the Manchester Ship Canal in 1887 with Rothschilds. After 1900, Barings also dealt with domestic issues for London Tramways, and the Mersey Docks & Harbour Board.

In contrast, the stockbrokers Cazenove & Akroyds, also a member of the Manchester Ship Canal syndicate, went on to be involved in at least fifty flotations on the London Stock Exchange in the three decades before 1914. Furthermore, in the Barings’ archive are copies of various prospectuses of issues by the private bank Glyn Mills, including domestic issues between 1903 and 1908 for Vickers Sons & Maxim, the Metropolitan District Railway Co., Beardmore Williams & Co. and
Cunard Steamship Company. There is no indication in the prospectuses that Barings was involved in these issues.\textsuperscript{70} During the mid-nineteenth century, domestic railway finance had been largely ignored by the merchant banks whereas Glyn Mills became known as the “Railway Bank”, dominating financing in this sector and gaining numerous accounts from the railway companies as a result.\textsuperscript{71} The absence of “the great leaders of the financial world” was noted at the time.\textsuperscript{72}

Another missed opportunity for the established merchant banks was London’s underground railway. At the start of the twentieth century, it faced two major challenges: electrification and the need for new lines. Both initiatives needed considerable investment. In 1897, Whitaker Wright on behalf of the London & Globe Finance Corporation funded the Baker Street & Waterloo Railway, but by 1900 his firm had been declared bankrupt. Wright ended up being found guilty of fraud; he eventually committed suicide.\textsuperscript{73}

The exit of one dubious financier was followed by the entrance of another. The American Charles Yerkes had served a two-year sentence for embezzlement and may have left America to escape a chaotic personal life.\textsuperscript{74} He established himself in London, and in 1901, he became involved in plans to electrify the District Line. An investment of over a million pounds was involved. Yerkes engaged the help of the German-born merchant banker Edgar Speyer, who had already made his mark in financial circles. He had trumped Rothschilds and Morgans in an issue of Cuban bonds in 1904. His reputation for setting a cracking pace made him few friends among the established firms. Hugo Baring described him as a “dirty little beast”. Even in polite society, he was treated with some distain. Beatrice Webb referred to him as a “shrewd little Jew – taciturn and almost gloomy”.\textsuperscript{75} Nonetheless, after Yerkes’ death in 1905, it was Speyer who managed to save the Underground Electric Railways of London from the verge of bankruptcy by using funds from his firm Speyer Brothers. By 1908, he had stabilised the company.

While there is evidence that the established merchant banks faced increased competition from new entrants in the years before the war, it is difficult, based solely on the evidence provided so far, to judge whether new opportunities were avoided because of prudent evaluation of the risks involved or whether they were missed because of inertia or undue caution. In the hope of providing an answer, a more detailed examination of the key merchanting banking activities before the outbreak of war in 1914 has been undertaken.
**CAPITAL CITY**

In July 1914, the UK was the world’s largest creditor (40% of total) and the USA was the largest debtor (16% of total).\(^7^6\) During the period 1865 to 1914, Britain invested capital throughout the world, but six countries accounted for more than half of its investment in this period—in descending order: USA, Canada, Argentina, Australia, India and South Africa.\(^7^7\) The patterns of investment varied enormously in this period. For instance, Canada’s share of British overseas investment went from 5.0% in 1900–1904 to 19.4% in 1910–1914; whereas in 1898–1899 Australia and India accounted for 12.5 and 13.8%, respectively, but declined to 4.7 and 3.7%, respectively, by 1910–1914.\(^7^8\) If the market leaders had continued to concentrate their issuing businesses on long-established relationships, what institutions were dealing with the new opportunities arising from these shifts in British overseas investment?

An exercise has been undertaken to extract information from prospectuses published in *The Times* newspaper in the six-month period between 1 January and 30 June 1914. It has been categorised by issuing house as well as by size and country of issue. It could be argued that the first half of 1914 was not necessarily representative of the pre-war period, but, as the position of the market leaders has been considered over a longer period, it is a valid question to ask which financial institutions were dealing with new issues in the London market immediately before the war. It is unlikely that the types of issuing houses involved in this six-month period would be radically different if a longer period had been chosen. Nevertheless, it is acknowledged that a more in-depth investigation over a longer period of time up to 1914 would provide more information, but there are no reasons to suppose that such further investigation would invalidate the general findings presented here.

Contrary to what might be expected, the new issues market in the first half of 1914 was not dominated by the merchant banks. Table 2.4 shows the top twenty issuing houses by value and number of issues in which they participated in the six months to 30 June 1914. Top of the table is the LCWB. It was involved in twenty issues, representing almost 18% of the total value issued in the period. Lloyds Bank was involved in fifteen issues, representing almost 8% of the total value. The merchant banks, which are highlighted in grey in the tables herein, were involved in a comparatively small number of issues. For instance, Barings and Schroders were involved in three issues each, and Lazards
Table 2.4  Ranking of Issuing Houses by value of issues between January and June 1914

<table>
<thead>
<tr>
<th>Issuing House</th>
<th>Total Value (£'m)</th>
<th>% of Total</th>
<th>Number of Issues</th>
<th>Average Value (£'m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London County and Westminster Bank</td>
<td>21.292</td>
<td>17.73</td>
<td>20</td>
<td>1.065</td>
</tr>
<tr>
<td>Lloyds Bank</td>
<td>9.113</td>
<td>7.59</td>
<td>15</td>
<td>0.608</td>
</tr>
<tr>
<td>The Bank of England</td>
<td>8.453</td>
<td>7.04</td>
<td>3</td>
<td>2.818</td>
</tr>
<tr>
<td>Baring Brothers &amp; Co. Ltd</td>
<td>4.801</td>
<td>4.00</td>
<td>3</td>
<td>1.600</td>
</tr>
<tr>
<td>National Bank of South Africa</td>
<td>4.678</td>
<td>3.90</td>
<td>3</td>
<td>1.559</td>
</tr>
<tr>
<td>Higginson &amp; Co.</td>
<td>3.879</td>
<td>3.23</td>
<td>5</td>
<td>0.776</td>
</tr>
<tr>
<td>J. Henry Schroder &amp; Co</td>
<td>3.333</td>
<td>2.78</td>
<td>3</td>
<td>1.111</td>
</tr>
<tr>
<td>Glyn, Mills, Currie &amp; Co.</td>
<td>3.107</td>
<td>2.59</td>
<td>5</td>
<td>0.621</td>
</tr>
<tr>
<td>Canadian Bank of Commerce, London</td>
<td>2.618</td>
<td>2.18</td>
<td>3</td>
<td>0.873</td>
</tr>
<tr>
<td>London City and Midland Bank</td>
<td>2.566</td>
<td>2.14</td>
<td>7</td>
<td>0.367</td>
</tr>
<tr>
<td>Emile Erlanger &amp; Co.</td>
<td>2.559</td>
<td>2.13</td>
<td>4</td>
<td>0.640</td>
</tr>
<tr>
<td>Crown Agents for the Colonies</td>
<td>2.554</td>
<td>2.13</td>
<td>3</td>
<td>0.851</td>
</tr>
<tr>
<td>Lazard Bros &amp; Co.</td>
<td>2.438</td>
<td>2.03</td>
<td>2</td>
<td>1.219</td>
</tr>
<tr>
<td>N. M. Rothschild &amp; Sons</td>
<td>2.314</td>
<td>1.93</td>
<td>2</td>
<td>1.157</td>
</tr>
<tr>
<td>Bank of Adelaide, London</td>
<td>2.000</td>
<td>1.67</td>
<td>1</td>
<td>2.000</td>
</tr>
<tr>
<td>Brown Shipley &amp; Co.</td>
<td>1.979</td>
<td>1.65</td>
<td>4</td>
<td>0.495</td>
</tr>
<tr>
<td>International Financial Society**</td>
<td>1.743</td>
<td>1.45</td>
<td>2</td>
<td>0.872</td>
</tr>
<tr>
<td>Barclays &amp; Co</td>
<td>1.649</td>
<td>1.37</td>
<td>5</td>
<td>0.330</td>
</tr>
<tr>
<td>Parr’s Bank</td>
<td>1.575</td>
<td>1.31</td>
<td>5</td>
<td>0.315</td>
</tr>
<tr>
<td>Other</td>
<td>22.724</td>
<td>18.93</td>
<td>61</td>
<td>0.373</td>
</tr>
<tr>
<td></td>
<td><strong>120.073</strong></td>
<td><strong>100.00</strong></td>
<td><strong>164</strong></td>
<td><strong>0.732</strong></td>
</tr>
</tbody>
</table>


*Source* Author’s table based on information in prospectuses published in The Times between 1 January and 30 June 1914

and Rothschilds in two each. Some of the smaller merchant banks were involved in more issues. For example, Higginsons was involved in five issues, and Erlangers and Brown Shipley in four issues each. Colonial issues were dealt with either by regional banks, such as the Bank of Montreal, by the BoE or by the Crown Agents for the colonies.
In 1921, Frederick Lavington wrote that the merchant banks marketed “only the better classes of securities” and these institutions were “the Issuing Houses proper, composed of highly reputable firms like Rothschild, Schroeder or Seligman.” More recently, Philip Cottrell identified the merchant banks as the key providers of issuing facilities in London in the second half of the nineteenth century. He argued that they provided a standardised offering for bond issues, which he felt explained their apparent reluctance to be involved in domestic issues especially of equities. He further argued that they focused on large issues that provided them with cost economies, leading to a bias towards international business. If the quality or size of issues is considered, do the merchant banks have higher rankings among the issuing houses for such issues?

Table 2.5 shows the ranking of the top ten issuing houses for the first half of 1914, but the issues have been restricted to those exceeding £1m. The order of the top six issuing houses remains unchanged, apart from the BoE and Lloyds Bank swapping third and fourth places. LCWB still tops the ranking with a share of almost 21% of the issues in excess of £1m—an improvement on its share of all major issues. It also has an unrivalled spread across global markets. The highest-ranking merchant bank remains Barings with three issues. Ironically, two of these issues were for the Belgian Government and undertaken jointly with the LCWB. Barings’ third issue was for the City of Buenos Aires in Argentina, but there were two further Argentine issues that did not involve Barings. Lloyds Bank issued debenture stock worth £1.425m for the Anglo-Argentine Tramways Company; two other joint-stock banks, Martin’s Bank and Capital & Counties Bank, issued debenture stock worth £1.013m for the Cordoba Central Railway Company. Even in its traditional preserves of Argentine issues, Barings was facing stiff competition.

Rothschilds was also being edged out of its dominant position in Brazil and Chile. In the period under review, there were two Brazilian issues and one Chilean; none of which were undertaken by Rothschilds. Schroders, together with associates elsewhere in Europe, issued £0.97m for the Brazilian State of San Paulo and bonds worth £1.41m for the Chilean Government. The British Bank of South America issued bonds for the Brazilian railway company, the Mogyana Railways and Navigation Company. There was competition not only from the joint-stock banks and other financial institutions, but also from other
Table 2.5  Ranking of Issuing Houses for issues >£1m between January and June 1914

<table>
<thead>
<tr>
<th>Issues &gt;£1m</th>
<th>Total Value</th>
<th>No. of Issues</th>
<th>% of Total (%)</th>
<th>Analysis by Country</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Canada</td>
</tr>
<tr>
<td>London County and Westminster Bank</td>
<td>18.567</td>
<td>14</td>
<td>20.92</td>
<td>1.080</td>
</tr>
<tr>
<td>Bank of Montreal, London</td>
<td>13.477</td>
<td>5</td>
<td>15.18</td>
<td>–</td>
</tr>
<tr>
<td>The Bank of England</td>
<td>8.453</td>
<td>3</td>
<td>9.52</td>
<td>–</td>
</tr>
<tr>
<td>Lloyds Bank</td>
<td>6.098</td>
<td>4</td>
<td>6.87</td>
<td>3.606</td>
</tr>
<tr>
<td>Baring Brothers &amp; Co. Ltd</td>
<td>4.801</td>
<td>3</td>
<td>5.41</td>
<td>–</td>
</tr>
<tr>
<td>National Bank of South Africa</td>
<td>3.920</td>
<td>2</td>
<td>4.42</td>
<td>–</td>
</tr>
<tr>
<td>Lazard Bros &amp; Co.</td>
<td>2.438</td>
<td>2</td>
<td>2.75</td>
<td>1.228</td>
</tr>
<tr>
<td>J. Henry Schroder &amp; Co.</td>
<td>2.363</td>
<td>2</td>
<td>2.66</td>
<td>–</td>
</tr>
<tr>
<td>N. M. Rothschild &amp; Sons</td>
<td>2.314</td>
<td>2</td>
<td>2.61</td>
<td>–</td>
</tr>
<tr>
<td>Bank of Adelaide, London</td>
<td>2.000</td>
<td>1</td>
<td>2.25</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>88.762</td>
<td>74</td>
<td>100.00</td>
<td>25.884</td>
</tr>
</tbody>
</table>

Source  Author’s table based on information in prospectuses published in The Times between 1 January and 30 June 1914
merchant banks. Based on the analysis for the six months to 30 June 1914, it seems that the merchant banks were no longer the “Issuing Houses proper” as described by Lavington, even when only larger issues are considered.

The erosion of the position of the merchant banks is further emphasised by Table 2.6. It shows the limited geographical spread of the issues undertaken by the merchant banks in the six months to 30 June 1914. One interesting point is that almost 18% of the issues were made for UK enterprises; many being handled by some of the smaller merchant banks such as Higginsons, Erlangers and M. Samuels as well as the International Financial Society, a consortium of other small merchant banks. Furthermore, the growing financial strength of the American investment banks was identified in the data analysed. In April 1914, when New York City wanted to issue bonds with a nominal value of $65m (£13.3m), it asked for tenders for the issue. A syndicate led by the American investment bank Kuhn Loeb bought the entire issue and then distributed it to investors; the merchant banks simply lacked the resources needed to finance such an enormous amount.\(^8^1\) The merchant banks’ same lack of competitiveness in comparison with global investment banks and securities houses was later seen after Big Bang in 1986.

While increasing competition from other institutions, especially the joint-stock banks, played a part in changing the new issues market, there were also other factors. Colonial loans tended to be handled by London-based representatives of the colonial governments. For example, issues by New Zealand, Queensland and the Transvaal were dealt with by the BoE; those for Canada and most of its provinces and towns were handled by the Bank of Montreal, which was the Canadian Government’s financial agent. Similarly, the remaining Australian States used LCWB and Parr’s Bank, apart from South Australia, which used the Bank of Adelaide. Moreover, each government had its own broker—usually one of three large firms: Nivison, Scrimgeour or Mullens Marshall, which as broker to the BoE also took part in issues for which the BoE was the financial agent.\(^8^2\) There was also considerably less risk involved in these arrangements for the issuing houses as they acted as agents, rather than principals. They were also assisted by specialist broking firms in distributing the securities to investors.

The other important development at this time that reduced risk for the issuing houses was underwriting, whereby financial institutions guaranteed to acquire at the asking price any unsold securities from an issue.
Table 2.6  Ranking of Merchant Banks for issues between January and June 1914

<table>
<thead>
<tr>
<th>Merchant Banks</th>
<th>Total value (£’m)</th>
<th>Issues % of total (%)</th>
<th>UK</th>
<th>Canada</th>
<th>USA</th>
<th>Belgium</th>
<th>Argentina</th>
<th>Hungary</th>
<th>Russia</th>
<th>Austria</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baring Brothers &amp; Co. Ltd</td>
<td>4.801</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td>2.451</td>
<td>2.349</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higginson &amp; Co.</td>
<td>3.879</td>
<td>5</td>
<td>14.37</td>
<td>0.480</td>
<td>0.683</td>
<td>2.716</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>J. Henry Schroder &amp; Co.</td>
<td>3.333</td>
<td>3</td>
<td>12.34</td>
<td></td>
<td>0.953</td>
<td>2.380</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emile Erlanger &amp; Co.</td>
<td>2.559</td>
<td>4</td>
<td>9.48</td>
<td>1.415</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.145</td>
</tr>
<tr>
<td>Lazard Bros &amp; Co.</td>
<td>2.438</td>
<td>2</td>
<td>9.03</td>
<td>1.228</td>
<td></td>
<td></td>
<td></td>
<td>1.210</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N. M. Rothschild &amp; Sons</td>
<td>2.314</td>
<td>2</td>
<td>8.57</td>
<td></td>
<td></td>
<td></td>
<td>1.361</td>
<td>0.953</td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>Brown Shipley &amp; Co.</td>
<td>1.979</td>
<td>4</td>
<td>7.33</td>
<td></td>
<td></td>
<td></td>
<td>1.979</td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>International Financial Society</td>
<td>1.743</td>
<td>2</td>
<td>6.46</td>
<td>1.743</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>M. Samuel &amp; Co.</td>
<td>0.950</td>
<td>1</td>
<td>3.52</td>
<td>0.950</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Merchant Banks</th>
<th>Total value (£'m)</th>
<th>Issues</th>
<th>% of total (%)</th>
<th>UK</th>
<th>Canada</th>
<th>USA</th>
<th>Belgium</th>
<th>Argentina</th>
<th>Hungary</th>
<th>Russia</th>
<th>Austria</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan, Grenfell &amp; Co.</td>
<td>0.890</td>
<td>1</td>
<td>3.30</td>
<td></td>
<td>0.890</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>Boulton Bros &amp; Co.</td>
<td>0.822</td>
<td>2</td>
<td>3.04</td>
<td></td>
<td>0.822</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>Dent, Palmer &amp; Co.</td>
<td>0.551</td>
<td>1</td>
<td>2.04</td>
<td>0.551</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>C. J. Hambro &amp; Son</td>
<td>0.547</td>
<td>1</td>
<td>2.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.547</td>
</tr>
<tr>
<td>Balfour, Williamson &amp; Co.</td>
<td>0.197</td>
<td>1</td>
<td>0.73</td>
<td>0.197</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>27.002</td>
<td>32</td>
<td>100.00</td>
<td>4.785</td>
<td>4.441</td>
<td>2.716</td>
<td>2.451</td>
<td>2.349</td>
<td>2.251</td>
<td>2.032</td>
<td>1.905</td>
<td>4.072</td>
</tr>
</tbody>
</table>

Source: Author’s table based on information in prospectuses published in *The Times* between 1 January and 30 June 1914.
in exchange for a commission. The manner in which most of the older merchant banks had dealt with issues was to buy the entire issue from the vendor and then distribute it through its own connections with the remainder being offered to the public. Chapman noted that the merchant banks were slow to adopt the technique of underwriting, noting that Lord Rothschild was a strong opponent of it. Barings also adopted underwriting reluctantly. At first, Barings only underwrote its American issues, which was probably at the behest of their New York agents. Underwriting was sometimes associated with questionable practices by the issuing house, and occasionally prospectuses even highlighted that an issue had not been underwritten. Nevertheless, underwriting was becoming accepted practice as it reduced the risk of unsold securities being left with the issuing house. Interestingly, the Argentine issues mentioned earlier, in which Barings was not involved, were both underwritten. The issue for the Anglo-Argentine Tramways Company was underwritten by two stockbroking firms: James Capel and Greenwood for a commission of 2½%. Similarly, the issue for the Cordoba Central Railway Company was underwritten by stockbrokers Leonard Clow for a commission of 2½%.

Insurance companies and investment trusts also played a role in distributing new issues by aggregating the savings of smaller investors. The dissemination of investment information to a wider investing public put the merchant banks at a disadvantage to the joint-stock banks. The former had an elite client base, while the latter had a much broader client base with growing affluence. Gary B. Magee and Andrew S. Thompson attribute the willingness of investors to accept a lower return on some securities as simply because more information was available about some investments, such as those in the Empire, by means of personal experience, word of mouth and information in local and specialist press. This imbalance of information would also start to become true for domestic issues, especially as the joint-stock banks with their widening networks started to become involved in issuing securities and they began to use their growing customer base for distribution. It has been suggested that a two-nation capital market existed in the UK at this time with overseas investment being predominantly attractive to London-based businessmen and elites, while the domestic market was mainly served by provincial businessmen.

Evidence of this divided capital market and the distribution power of the joint-stock banks can be seen from Table 2.7 in which the issuers of domestic securities in the first half of 1914 are ranked. The clearing
Table 2.7  Ranking of Issuing Houses for domestic issues between January and June 1914

<table>
<thead>
<tr>
<th>Issuing House</th>
<th>Total Value (£’m)</th>
<th>% of Total (%)</th>
<th>Number of Issues</th>
<th>Average Value (£’m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London City and Midland Bank</td>
<td>2.308</td>
<td>6.18</td>
<td>5</td>
<td>0.462</td>
</tr>
<tr>
<td>Lloyds Bank</td>
<td>2.032</td>
<td>5.44</td>
<td>8</td>
<td>0.254</td>
</tr>
<tr>
<td>International Financial Society</td>
<td>1.743</td>
<td>4.67</td>
<td>2</td>
<td>0.872</td>
</tr>
<tr>
<td>London County and Westminster Bank</td>
<td>1.730</td>
<td>4.63</td>
<td>5</td>
<td>0.346</td>
</tr>
<tr>
<td>Barclays &amp; Co.</td>
<td>1.649</td>
<td>4.42</td>
<td>5</td>
<td>0.330</td>
</tr>
<tr>
<td>Emile Erlanger &amp; Co.</td>
<td>1.415</td>
<td>3.79</td>
<td>2</td>
<td>0.707</td>
</tr>
<tr>
<td>M. Samuel &amp; Co.</td>
<td>0.950</td>
<td>2.54</td>
<td>1</td>
<td>0.950</td>
</tr>
<tr>
<td>British Linen Bank</td>
<td>0.820</td>
<td>2.20</td>
<td>2</td>
<td>0.410</td>
</tr>
<tr>
<td>Glyn, Mills, Currie &amp; Co.</td>
<td>0.568</td>
<td>1.52</td>
<td>2</td>
<td>0.284</td>
</tr>
<tr>
<td>Manchester &amp; Liverpool District Banking Corp</td>
<td>0.535</td>
<td>1.43</td>
<td>2</td>
<td>0.268</td>
</tr>
<tr>
<td>London Joint Stock Bank</td>
<td>0.503</td>
<td>1.35</td>
<td>2</td>
<td>0.251</td>
</tr>
<tr>
<td>Higginson &amp; Co.</td>
<td>0.480</td>
<td>1.29</td>
<td>1</td>
<td>0.480</td>
</tr>
<tr>
<td>The Law Debenture Corp’n</td>
<td>0.437</td>
<td>1.17</td>
<td>1</td>
<td>0.437</td>
</tr>
<tr>
<td>National Bank</td>
<td>0.364</td>
<td>0.97</td>
<td>2</td>
<td>0.182</td>
</tr>
<tr>
<td>Robarts, Lubbock &amp; Co.</td>
<td>0.349</td>
<td>0.93</td>
<td>2</td>
<td>0.174</td>
</tr>
<tr>
<td>Parr’s Bank</td>
<td>0.333</td>
<td>0.89</td>
<td>2</td>
<td>0.167</td>
</tr>
<tr>
<td>Union of London and Smiths Bank</td>
<td>0.253</td>
<td>0.68</td>
<td>1</td>
<td>0.253</td>
</tr>
<tr>
<td>Bank of Scotland</td>
<td>0.250</td>
<td>0.67</td>
<td>1</td>
<td>0.250</td>
</tr>
<tr>
<td>Bank of Liverpool</td>
<td>0.236</td>
<td>0.63</td>
<td>1</td>
<td>0.236</td>
</tr>
<tr>
<td>National Provincial Bank of England</td>
<td>0.236</td>
<td>0.63</td>
<td>1</td>
<td>0.236</td>
</tr>
<tr>
<td>Others</td>
<td>0.986</td>
<td>2.64</td>
<td>9</td>
<td>0.986</td>
</tr>
<tr>
<td></td>
<td>18.174</td>
<td>48.68</td>
<td>57</td>
<td>8.532</td>
</tr>
</tbody>
</table>

Source: Author’s table based on information in prospectuses published in The Times between 1 January and 30 June 1914

banks LCMB and Lloyds Bank are ranked first and second with approximately 6% of the market each. If the number of issues is considered, four joint-stock banks dealt with more than three domestic issues during this period. LCMB and Lloyds are joined by the ubiquitous LCWB and Barclays Bank. Apart from Lloyds, the other three banks each dealt with five domestic issues in this six-month period; Lloyds dealt with eight issues with an average value of just over a quarter of a million pounds.
The dominant position enjoyed by a few merchant banks in securities issuance was therefore increasingly challenged before the war. Were there similar competitive forces at work in acceptance financing?

**Bankers to the World**

In his evidence to a House of Commons committee in 1831, Nathan Meyer Rothschild said:

“This country in general is the Bank for the whole world; I mean, that all transactions, in India, in China, in Germany, in Russia, and in the whole world, are guided here and settled through this country.”

This view of the role of the City was to change little over the ensuing decades. In 1904 Frederick Huth Jackson, a director of the BoE and senior partner of the merchant bank Huths, wrote: “we owe our present position as bankers to the world, with all that this means, to the international character of our trade”. In the nineteenth and early twentieth centuries, Britain was the undisputed leader in the field of international trade finance. Acceptance financing was described by Baron Schroder as providing the basic core income of the merchant banks.

Merchants had used bills of exchange to pay for trade transaction for centuries. By deferring payment, they provided merchants with an easily obtainable form of credit. The collateral was provided by the transfer of ownership documents for the goods being traded. An important innovation occurred when some merchants started to guarantee the payment of bills issued by others. The merchant firms that guaranteed bills usually had an impeccable credit rating. Such guaranteed bills were known as acceptances and thereby converted a simple trade debt into a tradable, short-term instrument that could be used to pay for transactions other than the original one or be held as short-term investments. A high-quality acceptance was as good as money itself.

As the reputation of the accepting houses grew, a highly liquid market for acceptances was created. The source of liquidity in this market was provided by the joint-stock banks—facilitated by their growing deposits. The joint-stock banks put their cash surpluses to work either by buying acceptances themselves or by lending short term to the discount houses, which in turn acquired portfolios of bills. These activities created a highly liquid market for acceptances, which could easily be
sold (discounted) for cash. The London money market became the hub of international short-term finance for investors and borrowers. Before the outbreak of the First World War, the London money market mainly dealt in these bankers’ acceptances. The economist Thomas Balogh estimated that in the financial year 1913–1914 the average bill circulation in the London money markets was approximately £500m. At this time, Treasury Bills amounted to no more than £5.5m and the total deposits of the joint-stock banks were approximately £960m.91

The characteristics of the London money market at its pinnacle of achievement were described by Huth Jackson in an article published in 1904. He estimated “after most careful consideration and consultation with others” that total sterling acceptances in 1904 amounted to £1400m. Assuming an average duration of seventy days, the average amount outstanding at any time would be about £280m of which he estimated £180m were foreign bills and £100m inland bills.92 He believed that sterling acceptances for foreign account were probably “as large as, if not larger, than it has ever been”. If Balogh’s estimates were correct and average bill durations had remained constant, by 1913–1914 the London acceptance market would have grown by almost 80% in ten years. Huth Jackson also noted the growing competition from the “Lombard Street bankers and Scotch bankers who have (if I may say so) poached on what we consider our preserves”.93 The growth of competition in acceptance finance is shown in Table 2.8. It shows the relative rankings of firms providing acceptance finance in London in 1900 and 1913. By 1913, Wm. Brandts, Rothschilds and Hambros were already in the second division with acceptances of £3.3m, £3.2m and £3.0m, respectively, placing them 12th, 13th and 15th in the ranking of London acceptors, even behind the newly created Russian Bank for Foreign Trade.

While the acceptance market had grown substantially from 1900, the nature of the bills in the market was also changing. Huth Jackson recognised that inland bills were in decline.94 As the joint-stock banks accumulated more deposits and increased their branch networks, payments were increasingly made by cheque or transfer thereby displacing the domestic bill of exchange as a means of payment. The growth of deposit-taking banks in the UK and in other countries provided the liquidity to enable such banks to provide credit facilities in the form of loans and overdrafts, enabling customers to make payments by either cheque or telegraphic transfer—not just for domestic transactions, but also for imports. The forces that were changing the financing of domestic trade were also
Table 2.8  Acceptances of the Merchant Banks and their Competitors 1900 and 1913

<table>
<thead>
<tr>
<th>London Merchant Banks</th>
<th>1900 (£’m)</th>
<th>1913 (£’m)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kleinwort, Sons &amp; Co.</td>
<td>8.2</td>
<td>13.6</td>
<td>65.9</td>
</tr>
<tr>
<td>J. Henry Schroder &amp; Co.</td>
<td>5.9</td>
<td>11.6</td>
<td>96.6</td>
</tr>
<tr>
<td>Wm Brandt’s Son’s &amp; Co.</td>
<td>1.2</td>
<td>3.3</td>
<td>175.0</td>
</tr>
<tr>
<td>Baring Bros &amp; Co. Ltd.</td>
<td>3.9</td>
<td>6.6</td>
<td>69.2</td>
</tr>
<tr>
<td>C. J. Hambro &amp; Son</td>
<td>1.9</td>
<td>3.0</td>
<td>57.9</td>
</tr>
<tr>
<td>N. M. Rothschild &amp; Sons</td>
<td>1.5</td>
<td>3.2</td>
<td>113.3</td>
</tr>
<tr>
<td>Brown, Shipley &amp; Co.</td>
<td>n/a</td>
<td>5.1</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>British Joint-stock Banks</th>
<th>1900 (£’m)</th>
<th>1913 (£’m)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union of London &amp; Smiths Bank</td>
<td>3.1</td>
<td>5.8</td>
<td>87.1</td>
</tr>
<tr>
<td>Parr’s Bank</td>
<td>2.4</td>
<td>5.4</td>
<td>125.0</td>
</tr>
<tr>
<td>London Joint-Stock Bank</td>
<td>1.4</td>
<td>3.2</td>
<td>128.6</td>
</tr>
<tr>
<td>Manchester &amp; Liverpool District</td>
<td>1.7</td>
<td>2.7</td>
<td>58.8</td>
</tr>
<tr>
<td>London Country &amp; Westminster**</td>
<td>0.2</td>
<td>7.8</td>
<td>3800.0</td>
</tr>
<tr>
<td>Glyn, Mills &amp; Co.</td>
<td>1.2</td>
<td>1.4</td>
<td>16.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Continental Banks</th>
<th>1900 (£’m)</th>
<th>1913 (£’m)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dresdner Bank</td>
<td>6.1</td>
<td>14.4</td>
<td>136.1</td>
</tr>
<tr>
<td>Discontogesellschaft</td>
<td>3.0</td>
<td>12.5</td>
<td>316.7</td>
</tr>
<tr>
<td>Credit Lyonnais</td>
<td>0.04</td>
<td>5.7</td>
<td>14,150.0</td>
</tr>
<tr>
<td>Russian Bank for Foreign Trade</td>
<td>2.2</td>
<td>3.7</td>
<td>68.2</td>
</tr>
<tr>
<td>Credito Italiano</td>
<td>n/a</td>
<td>1.7</td>
<td>–</td>
</tr>
</tbody>
</table>

Source Chapman, Merchant Banking (1992), Table 7.2, p. 121 (**LCWB’s acceptance business went from a negligible amount in 1900 to become by 1913 one of the most significant participants among the joint-stock banks. This increase in its acceptance business arose because of amalgamations. London & County Banking Co. acquired Frederick Burt in 1907, which was described as a foreign banker. The resultant bank merged with London & Westminster Bank two years later in 1909. See: Orbell and Turton, British Banking (2001), pp. 132–133, 343–344, 351–352)
foreign bills before 1914 were drawn either for the finance of trade between other countries or to take advantage of interest rate differentials, that is for foreign exchange transactions. There is some indirect evidence to indicate that the growth was mainly in non-trade bills, known as finance bills, although given the ephemeral nature of bills of exchange and that surviving accounting records do not distinguish between trade and finance bills, it is difficult to get direct evidence from the archives.

In his article, Huth Jackson referred to “blank drafts” and “Stock Exchange drafts”. He stated that blank drafts are “naturally permitted with much less readiness” and “the London banker is careful in controlling, as far as he is able, that these facilities are used for legitimate purposes”. While blank drafts could essentially be used for seemingly any purpose, Stock Exchange bills were primarily used to finance Stock Exchange or foreign exchange transactions with securities being used as collateral. Such finance bills were disparagingly referred to as accommodation paper or kites. In contrast to true bills, which were based on underlying trade in goods, such bills were simply short-term loans, which in some cases were unsecured. Since true bills financed both UK foreign trade and trade between other countries, what proportion of the market was in the form of finance bills?

In 1929 in his evidence to the Macmillan Committee, Robert Kindersley, who in 1914 was a director of the BoE and a partner in Lazards, stated

I am told on what I believe to be very good authority that the amount of bills in 1913, prime acceptances, was £350,000,000, and of that £350,000,000 60 per cent were finance bills. It was figure that astonished me, but it came from a source that I believe to be reliable

He went on to explain that after the war the finance bill was “very much frowned upon”. If this estimate is correct, that is indeed an astonishing figure and would indicate that the exposure of the merchant banks and other acceptors was far from limited to trade-based acceptances. By the outbreak of the First World War, a contemporary account stated that

one-half of the world’s foreign trade was financed by British credit. The acceptances of the accepting houses and foreign banks current at this period in London amounted to between £300,000,000 and £350,000,000, and those of the Joint Stock banks to about £70,000,000.
However, if 60% of prime acceptances were finance bills, this would sug-
gest that in July 1914 the merchant banks and some foreign banks had
an exposure of between £180m and £210m to what were essentially
short-term loans not linked directly to trade, which were in many cases
unsecured. Not only had the merchant banks’ share of the acceptance
market declined, but they had also seemingly significantly increased their
risk exposure by guaranteeing finance bills other than traditional true
bills collateralised by traded goods. Their exposure to these considerable
risks would prove almost disastrous with the outbreak of war in 1914.

Conclusion

This chapter has challenged the hypothesis that between the late nine-
teenth century and the outbreak of war in 1914 the City enjoyed a
“golden age”. Its focus has been mainly on the City’s merchant banks.
During this period, the established firms avoided many of the new
opportunities, especially the raising of capital for commercial and indus-
trial companies, which were left to new entrants. There was a similar
reluctance to branch into emerging markets such as Canada, Russia,
Japan and China, where rival institutions especially the domestic joint-
stock banks and stockbroking firms took the initiative. Even where
the merchant banks had existing connections in these markets such as
Barings in Russia, new competitors seized opportunities. The market
leaders among the merchant banks showed a lack of innovation, sticking
with their established business patterns regardless of the risks involved.

An analysis of the London new issues market in the six months before
the outbreak of war in 1914 showed that the merchant banks no longer
dominated this activity. The large clearing banks had a greater share of
issues and a wider geographic coverage. They distributed issues more
widely by using stockbroking firms, and they reduced the risk of failed
issues by underwriting them with other financial institutions. These
innovations resulted in a considerable loss of market share by the mer-
chant banks. The Baring Crisis in 1890 was in many ways a turning point
in the securities issuing business because Barings’ refusal to underwrite
issues contributed significantly to the crisis.100

Even in acceptance finance, which had conventionally been regarded
as the preserve of the merchant banks, market share was lost to the larger
clearing banks and foreign institutions. The merchant banks’ response to
this loss of market share was to extend credit in the form of finance bills,
financing between £180m and £210m of such credits by 1914; most of which would have been unsecured. This enormous credit bubble would burst at the onset of war, exposing the weaknesses of the merchant banks and ending the increasingly tarnished, rather than golden, age before 1914.

**Notes**

10. Revelstoke, Cromer and Ashburton.
11. For example, in 1836–1837, after a credit boom in America, the BoE raised interest rates to curtail the outflow of gold. This action precipitated a panic in the London money markets, but the BoE was very reluctant to provide support. In the case of three Anglo-American firms—Wilson & Co.; Wiggin & Co.; and Wildes & Co. (the “three Ws”), Barings arranged support together with others financial institutions. See: Ralph W. Hidy, ‘Cushioning a Crisis in the London Money Market’, *Bulletin of the Business Historical Society* (1946), pp. 131–145. The private bank Sir James Esdaile, Esdaile, Grenfell, Thomas & Co. also failed in 1836, but creditors were repaid from a loan advanced by City of London bankers, including Glyn, Hallifax, Mills & Co. See: RBS

14. BA, Digitised Collections, Prospectuses.
17. Compare with Overend & Gurney in 1866 and City of Glasgow Bank in 1878.
21. Data extracted from the RA, Loans Department.
25. Unless otherwise indicated in the prospectus, the value of issues involving more than one issuing house has been divided equally between them.
26. LMA, CLC/B/140/Ms22109, Kleinwort, Issuing department, Syndicate and underwriting accounts, Ledgers of stocks issues in which the firm participated, 1910–1923.

33. *The Times*, 1 January 1924.

34. At the end of the Second Boer War in 1902, Arthur Grenfell had lost a considerable amount of money in share speculation and was on the verge of bankruptcy. He was rescued by Robert Benson and Revelstoke putting pressure on Hugo Baring, as trustee of Grenfell’s marriage settlement, to release capital from the settlement. See: Kynaston, *City of London*, Vol. II (1995), pp. 347–351.


42. BA, Digitised Collections, Prospectuses—202255.6, City of Moscow Loan 1908, 24 March 1908; 202255.2, Imperial Russian Government Loan 1909, 16 January 1909.


44. *The Times*, 3 November 1909.


46. Prospectus published in *The Times*, 23 January 1911. C. Birch Crisp & Co. were brokers to the issue. George P. Sechiari of Rodocanachi, Sons & Co. was a director.

47. *The Times*, 6 November 1912.

49. TNA, B 9/1010, Records of the Court of Bankruptcy, Boulton Brothers & Co. (Vol. 1), Public examination of partners, 17 December 1925.

50. Boulton Brothers was declared bankrupt in 1924, although not as a direct result of its Russian business.


53. London Gazette, 18 February 1907.


59. HofC Papers, China No. 2 (1912), Correspondence respecting Chinese Loan Negotiations, October 1912, Cd. 6446 (italics in original).

60. HofC, China No. 2 (1912), Cd. 6446, Letter from Grey to Jordan, 23 August 1912 and 10 September 1912.

61. The Times, 9 November 1912.

62. In November 1914, the BoE refused to provide pre-moratorium facilities to firms associated with Birch Crisp. See: HPD (Commons), Vol. 68, cc1517–1593, 27 November 1914, Speech by Sir Arthur Markham.


68. BA, Digitised Collections, Prospectuses.
70. BA, Digitised Collections, Prospectuses.
72. Disraeli wrote in *Endymion* “What is remarkable in this vast movement is that the great leaders of the financial world took no part in it. The mighty loan-mongers, on whose fiat the fate of kings and empires sometimes depended, seemed like men who, witnessing some eccentricity of nature, watched it with mixed feelings of curiosity and alarm. Even Lombard Street, which was never more wanted, was inactive, and it was only by the irresistible pressure of circumstances that a banking firm, which had an extensive country connection, was ultimately forced to take the leading part that was required”. The banking firm referred to is undoubtedly Glyn’s. Cited in Fulford, *Glyn’s* (1953), p. 121.
86. HofC, Report from the Committee of Secrecy on the Bank of England Charter; with the minutes of evidence, appendix and index, 1831–1832, Q 4799 (my emphasis).

90. Discount Houses were unique to the London money market. They dealt in short-term instruments such as acceptances and other bills, financing their portfolios by borrowing short term from the banks.


92. These estimates are consistent with later ones that give a total of £1340m in 1894 of which £630m (47%) were foreign bills and a total of £1800 in 1913 of which £1203 (65%) were foreign bills. See: Shizuya Nishimura, *The Decline of Inland Bills of Exchange in the London Money Market 1855–1913* (London, 1971), p. 25.


98. TNA, T200/8, Committee on Finance and Industry (Macmillan Committee), Minutes of evidence, 1929–31 (hereafter Macmillan Committee evidence), Q.1273.


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Treasury Papers
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**Chapters in Collective Works**


**Books**


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Newspapers
New York Times
The London Gazette
The Times
The outbreak of war in 1914 was not necessarily detrimental to all merchant banks as some firms were bound to benefit to some extent from the conflict. Stanley Chapman has recognised that the impact of the war on the merchant banks was not uniform. He has noted that the war was a setback for the Anglo-German merchant banks, but the Anglo-American merchant banks, especially Morgans, would have benefited from the wartime expansion of transatlantic credit.¹ P. J. Cain and A. G. Hopkins have attributed Britain’s vulnerability at the outbreak of war in 1914 to her dependence on international trade, referring to its “delicate web of credit”.² Given the merchant banks’ dependence on the provision of international trade finance, did they have the necessary resilience to cope with such upheavals?

This chapter will examine the impact of the First World War on the merchant banks. It will be demonstrated that the weaknesses of some of the merchant banks made them highly vulnerable at the outbreak of war in 1914, particularly those firms that were dependent on a narrow geographical spread of business. Most firms still operated as family-controlled partnerships often within narrow ethnic groups so were also vulnerable to organisational frailties and, in some cases, racial prejudice. Many of the merchant banks had already lost market share because of increasing competition, while some had resorted to undertaking high-risk activities in the hope of gaining business. The outbreak of war acted as a catalyst
to expose these weaknesses, precipitating the failure or slow decline of a number of merchant banking firms.

**Gathering Storm**

The First World War was described by David Lloyd as “one of those seismic disturbances”. It is therefore not surprising that the war has been portrayed as heralding the end of an era. There had been considerable tension between the major European powers for some time before the outbreak of the global conflict in 1914. For example, there had been disputes over Morocco in 1905–1906 and 1911 between France and Germany, while the Balkans had experienced recurring conflicts. In the First Balkan War of 1912, a coalition of Balkan states successfully drove the Ottoman Empire from Europe, but then quarrelled over the spoils, giving rise to the Second Balkan War in 1913.

In 1912, Robert H. Brand, a director of the Bank of England (hereafter the BoE) and a partner in Lazards, wrote about the growth in international interdependency, citing the American monetary crisis of 1907, which would at that time been a recent event, as an example. He refers to the extent and impact of this crisis that was not confined to the USA. Notwithstanding the increasing interdependency of nations, this was a period of considerable turbulence in world affairs. In an essay written in September 1914, Brand explained that the outbreak of war came after an extended period of international tension, citing the Balkans wars and the Mexican revolution as examples, as well as economic depression such as in Canada and in countries in Latin America. In these circumstances, it is understandable that some firms might have adopted a cautious approach. Globalisation had fuelled economic growth so new investment opportunities abounded, but there were also huge risks associated with some of these prospects.

It was generally understood that a war involving the major powers would seriously disrupt international trade and cross-border capital flows and therefore impact the business of international financiers such as the merchant banks. Whereas localised conflicts and increased expenditure on armaments by the great powers provided opportunities for profit so long as an escalation into a global war was avoided. It is therefore hardly surprising that when in 1909 Arthur Balfour, the former conservative Prime Minister, gave a speech at the Guildhall in support of increased naval expenditure, the resolution “to support the Government in any financial arrangements that may be necessary to attain this end” was moved by Lord “Natty” Rothschild of N. M. Rothschild & Sons, and
seconded by Herbert Gibbs of Antony Gibbs & Sons. Both of these merchant bankers stood to gain from an arms race against Germany. Rothschilds had investments in the armaments industry. Gibbs had considerable interests in Chilean nitrates—a vital component in the manufacturer of explosives.

Delusional thinking about the power of the major international financiers had persisted for some time. As early as 1902, John A. Hobson, the left-wing political economist and staunch critic of imperialism, wrote

Does anyone seriously suppose that a great war could be undertaken by any European State, or a great State loan subscribed, if the house of Rothschild and its connections set their face against it?

Similarly, in his book *The Great Illusion*, published in 1912, Norman Angell argued that the potential damage to international finance would in itself be sufficient reason to prevent a war from happening. The outbreak of war therefore seems to have taken the City by complete surprise. The opening sentence of Hartley Withers’ *War and Lombard Street*, published in 1915, sets the scene: “It came upon us like a thunderbolt from a clear sky”. It consequences for the City and the merchant banks in particular would be severe.

**1914 Financial Crisis**

The scale and complexity of commercial and financial activity in the City in 1914 can be gauged from the number of firms listed in directories from that time. The Post Office directory for the City in 1914 lists 1745 Merchants—General, including 53 firms that can be identified as merchant banks. In addition, there were 207 Merchants—East India; 59 Merchants—Japan; 14 Merchants—Russian; 63 Merchants—South American; and 53 Merchants—West India. There were also numerous merchants specialising in various commodities, including fruit, fur & skins, ice, leather, lime, marble, minerals, petroleum, rice, silk, slate, tallow, timber, and wine. The City was the heart of a trading empire, dealing in a huge range of commodities. The extent of this activity indicates the highly competitive nature of the City in 1914, offering trading and financing opportunities across the world. Many of the new opportunities provided the prospect of good returns but were accompanied by significant risks. The ability to balance risks and returns determined the fate of many of the participants.
In January 1914, *The Times* reviewed the state of international finance. It stated that “1913 has been one of great anxiety to bankers, politics being again a disturbing feature”, but added that regardless of these troubles “British banking has experienced another prosperous period”. During 1914, there were plenty of indications in world affairs both political and economic that caution was to be advised. Nevertheless, on the eve of the outbreak of war in late July 1914, there was clearly a lack of preparedness both by the British government and most of the City.

Contemporary file notes of Sir John Bradbury record that the Governor and directors of the Bank of England (hereafter BoE), including the merchant bankers Lord Revelstoke of Barings and Everard Hambro, believed the BoE to be in “a very strong position, and any special steps would be unnecessary, and indeed harmful as tending to excite apprehensions”. The concern about exciting apprehension was taken to ludicrous extremes as the Governor of the BoE avoided visiting the Chancellor of the Exchequer to discuss the serious financial crisis “lest alarming inferences be drawn”. The traditional City establishment were more concerned about perceptions than the reality of the impending crisis.

In contrast, the London Clearing Banks recognised that “the supply of currency so urgently required by this country during the present time of crisis to permit the carrying on of all industrial and financial business” needed to be increased. At this time, the currency was backed by gold and government securities, and paper currency could be exchanged for gold coin on demand. The London Clearing Banks proposed that there should be a temporary increase in the paper currency to provide liquidity to the economy.

The need for greater liquidity in the economy was only one aspect of the growing crisis. John Maynard Keynes advised that, even assuming the internal demand for currency was satisfied by an emergency issue of paper currency, “the suspension of specie payment by the Bank of England can only become necessary if the probable immediate drawings on foreign account are greater than the Bank can possibly afford to lose”. Keynes realised that

> the most formidable difficulties which now face the Money Market arise out of the fact that foreign countries are not able to meet their liabilities to us
closing of the Stock Exchange and the fact that the Discount Houses have ceased to do business, taken in conjunction with the 10 per cent bank rate, have virtually abolished the power of any foreign country to raise fresh credits here. They cannot sell us securities and they cannot discount their bills with us.\textsuperscript{16}

There was a severe risk that there would be defaults on existing debts with no prospect of new business to compensate for such losses. Defaults on existing debts would have directly impacted the merchant banks as, acting as accepting houses, they would have had guaranteed bills of exchange. There would have also been a knock-on effect to the Discount Houses whose portfolios of bills were financed by short-term funds from the Clearing Banks. In addition, the Clearing Banks would have had further exposure to Stock Exchange firms that would have had outstanding debts from overseas investors. The scope for financial contagion was enormous, and the whole financial system faced collapse.

There is no evidence that the British government had plans to deal with a financial crisis arising from the outbreak of war. There was also little evidence of deep concern in the stock market as war approached. In the six weeks to 31 July 1914, the price of Consols, the bellwether of financial markets, remained relatively stable until the last week when it plummeted—see Fig. 3.1. A more sensitive indicator of anxiety in the

![Closing Price of Consols 22 June to 31 July 1914](source)

Fig. 3.1 The daily closing price of Consols in the six weeks to 31 July 1914 (Source Author’s chart based on market prices published in The Times, 26 June–31 July 1914)
City was the discount rate—the interest rate on three-month acceptances. During the week beginning 13 July 1914, the discount rate was remarkably stable. It only began to tighten the following week—see Fig. 3.2. Between 13 and 25 July 1914, the discount rate moved from 2.13 to 2.44%, an increase of 23%. This movement was a clear indicator that short-term money was becoming more difficult to obtain, reflecting growing concerns about the onset of war. The first notable effect was the withdrawal of short-term loans from stockbrokers. On 29 July 1914, The Times reported that markets were being affected by the withdrawal of large sums of money from the Stock Exchange by foreign banks.17

Writing about the foreign exchange market, the historian R. S. Sayers gave a similar account. He wrote that the foreign banks had withdrawn loans, so the exchange rate swung in favour of London.18 This explanation does not, however, make sense as a strengthening of sterling would suggest that London was calling in its loans, creating a demand for sterling to meet repayment obligations. Keynes provided a more convincing analysis of the growing crisis. He believed that it was purchases of stock by foreigners, rather than sales, which was generating some of the demand for sterling. This would make sense if sterling investments were seen as a safe haven by foreign investors. If these foreign investors were, however, unable to settle these trades, their stockbrokers would be liable. Consequently, a number of stockbroking firms failed such as Derenburg.

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Fig. 3.2 Discount rate on 3-month acceptances for 13–31 July 1914 (Source: Author’s chart based on market data published in The Times, 13–31 July 1914)
& Co., which did a large amount of German business. According to Keynes, the situation was exacerbated by the withdrawal of loans from the stockbrokers by the joint-stock banks. He described the result as “a strangling effect” caused by “a lack of courage” by the joint-stock bankers.

From 27 July, in an attempt to avoid further liabilities, the merchant banks stopped writing new acceptance business. This action precipitated a sudden tightening of the credit conditions. Richard Roberts estimated that, with outstanding bills maturing at a rate of £3–4m each working day, available credit was curtailed by £15–20m during the week commencing 27 July 1914. This credit squeeze would have threatened the viability of the merchant banks in their role as accepting houses. The joint-stock banks also had exposures to acceptances, but to a much lesser extent. A number of the merchant banks now faced liabilities well in excess of their capital.

There was undoubtedly an extraordinary demand for sterling at this time. It can be gauged by the movement in the exchange rate between the US dollar and sterling. During the first half of 1914, the rate varied narrowly around $4.8665, being constrained by gold arbitrage. During the period 1–7 August 1914, the rate rose to $7 at times. The open market rate had broken down and transactions were being undertaken by private negotiation. By 8 August, a degree of normality had returned with the rate returning to $5. In August 1914, Montagu Norman noted in a letter to a fellow partner of Brown Shipley that the British accepting houses were essentially insolvent. The Anglo-American merchant banks experienced a temporary liquidity problem that largely resolved itself once the sterling-dollar exchange stabilised. In contrast, the Anglo-German merchant banks suffered a major setback that took them several years to recover from. Can these different outcomes be explained simply as a consequence of having debtors based in an enemy country?

At the outbreak of war, the restrictions on trading with the enemy were confused and lax with the British government adopting limited economic warfare while promoting a policy of “business as usual”. The Trading with the Enemy Proclamation of 5 August 1914 banned transactions with persons resident in Germany, but not with German firms established in British or neutral territory. Branches of enemy banks based in London were closed at the outbreak of war, but on 10 August received a royal licence to reopen to complete transactions in progress.
The accountant Sir William Plender was appointed Controller of the German, Austrian, and Turkish Banks licensed to carry on business in London. His role was to oversee their activities. He also agreed to serve on “the Committee on relief to British traders in respect of debts abroad”. In Germany, a debt moratorium was avoided, and exchange controls were only introduced in January 1916. These “business as usual” arrangements early in the war in both Britain and Germany suggest that there was scope for some continuing commercial activity between them. Why therefore were the Anglo-German merchant banks effectively insolvent? The most likely explanation is that their debts were illiquid, having been converted into long-term investments by their debtors. Gerald D. Feldman pointed out that German banks had before the war often used short-term credit to make long-term investments, doing so out of necessity as longer-term capital was not available. It is probable that a significant amount of such debts were in the form of finance bills rather than self-liquidating trade bills.

Maturity transformation, whereby money is borrowed for shorter periods than it is lent out, is a key function of the banking system. It necessarily creates risk, but, so long as all depositors do not demand a return of their money at the same time, it should remain manageable. The use of finance bills to fund long-term investments produces a mismatch of assets and liabilities. This mismatch is particularly dangerous when the credit is supplied by financial institutions other than large deposit banks as they are unlikely to have sufficient reserves to meet any sudden demands in the event of a general crisis. An explanation for the increased use of finance bills has been provided by S. G. Checkland. He has proposed that in the period before 1914, the use of telegraphic transfers by merchants disrupted the acceptance business of the merchant banks. This loss of business resulted in the merchant banks lending elsewhere, resulting in speculation and other unsound practices.

Finance bills had long been used for speculation and even fraud. In 1914, the frauds involving finance bills committed in 1875 would have been in living memory. Experience had shown that finance bills often entered circulation at times of speculation, especially when there was excessive competition in the money markets and undue secrecy surrounding bill discounting operations. These conditions existed in 1914: intense competition; a lack of information about the discount market and its participants, including the accepting houses; and a large
volume of finance bills. Was this volume of finance bills feeding a speculative boom in the years leading to 1914?

Hartley Withers, writing in late 1914, was not entirely negative about finance bills, explaining that they were sometimes used to manage foreign exchange in conjunction with trade transactions. A similar explanation of the use of finance bill in the pre-war period was provided in 1930 by R. H. Foà, a partner in the discount house of King and Foà, to the Macmillan Committee. He explained that before the war “anticipatory bills” were used to smooth out seasonal fluctuations and, while not representing current trade, did “represent coming trade”. Withers further noted that for some time before the war finance bills had been used as a substitute for long-term capital, owing to the general scarcity of capital at that time. He recognised the danger of this “unsound development”. A partner of Lazards, Robert Kindersley, stated in his evidence to the Macmillan Committee in 1929 that £300m of the bills in the London money market in 1913 were finance bills, being 60% of the total value of bills in the market. What impact would this astonishing figure have on the stability of the London money market and on the accepting houses that had guaranteed these bills?

The monetary theorist Hyman Minsky produced a model of financial crises. While his model assumed that credit systems are generally unstable, he believed that speculative booms are usually fed by credit expansion. Such booms are eventually brought abruptly to an end by a displacement event, which then precipitates a financial crisis. A displacement event is some exogenous shock to the macroeconomic system of sufficient size and scope to alter economic outlooks. The outbreak of the First World War obviously qualified as a displacement event, but was there a speculative boom beforehand fed by an expansion of credit? Richard Roberts wrote that the 1914 financial crisis had “no preceding credit expansion, euphoria, speculative mania, asset bubble, or ‘Minsky moment’”. However, the evidence suggests that the unsatisfied demand for long-term capital and the reduction in demand for trade credit led to an excessive supply of finance bills, especially by the merchant banks, which were under pressure to maintain market share. Contrary to Roberts’ contention, this credit expansion in the years before 1914 provided the classic conditions that would deteriorate into a financial crisis with the right catalyst. The outbreak of war in 1914 provided the shock to precipitate such a financial crisis.
Further indirect evidence that finance bills were a serious problem in 1914 is provided by the severity of the BoE’s reaction to this form of credit after the war. R. S. Sayers noted that at the end of the war the BoE attached great importance to discouraging the use of finance bills. It had a policy of only offering its finest discount rates for genuine commercial bills. Sayers felt that the BoE’s approach was hard to understand. But one obvious explanation is that the BoE’s experience of dealing with the fallout from the huge volume of finance bills in the market at the outbreak of war had made it determined to prevent any repetition of such circumstances in the future. As a result of the BoE’s hostility to finance bills, they had practically disappeared from the market by 1921.

Since many merchant banks survived the 1914 financial crisis, it might suggest that they were either prepared for the crisis or in a reasonable condition to deal with it. It is therefore necessary to examine how the crisis was handled.

**Moratorium**

On the 5 August 1914, a meeting was convened at the offices of Huths of the accepting houses. Table 3.1 shows the original invitees, their countries of origin, the dates they became established in London and their estimated capital in 1914. At least twelve out of a total of twenty-one firms were of German origin with exposures to enemy debtors. The meeting decided that all acceptances due Tuesday to Friday should be treated as due on Friday 7 August. The minutes further stated that although “there was not complete unanimity on the subject, the general opinion was to adopt this policy”. This group would evolve to become the Accepting Houses Committee (hereafter AHC).

Had the accepting houses overextended themselves before the war? Some well-informed individuals believed so. In March 1916, Benjamin Strong, Governor of the Federal Reserve Bank of New York, made a diary note of his discussions with Christopher Nugent of the Union Discount Company of London. He wrote:

Prior to the war much too great latitude had been allowed the large acceptance houses like Kleinwort Sons & Co; Shroeder [sic] & Co., et al, who sometimes had from 15[m] to 20m sterling in the market, and as they never made a statement, no one knew what their capital was.
Table 3.1  Founding members of the Accepting Houses Committee, August 1914

<table>
<thead>
<tr>
<th>Firm</th>
<th>Origins</th>
<th>Date established in London</th>
<th>Capital in 1914 (£’m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbuthnot, Latham &amp; Co.</td>
<td>Agency house/British</td>
<td>1833</td>
<td>0.44</td>
</tr>
<tr>
<td>Baring Bros &amp; Co. Ltd</td>
<td>German (via Exeter)</td>
<td>1763</td>
<td>1.125</td>
</tr>
<tr>
<td>Arthur H. Brandt &amp; Co.</td>
<td>German</td>
<td>1899</td>
<td>(small)</td>
</tr>
<tr>
<td>Wm Brandt, Sons &amp; Co.</td>
<td>German</td>
<td>1805</td>
<td>c.1.0</td>
</tr>
<tr>
<td>Brown Shipley &amp; Co.</td>
<td>Anglo-American</td>
<td>1810</td>
<td>0.775</td>
</tr>
<tr>
<td>Cunliffe Bros</td>
<td>English</td>
<td>1890</td>
<td>0.50+</td>
</tr>
<tr>
<td>Frühling &amp; Goschen</td>
<td>German</td>
<td>1814</td>
<td>(small)</td>
</tr>
<tr>
<td>Anthony Gibb &amp; Sons</td>
<td>South American merchants/English</td>
<td>1808</td>
<td>1.215</td>
</tr>
<tr>
<td>C. J. Hambro &amp; Son</td>
<td>German (via Copenhagen)</td>
<td>1840</td>
<td>c.1.0</td>
</tr>
<tr>
<td>Horstman &amp; Co.</td>
<td>German</td>
<td>1802</td>
<td>n/a</td>
</tr>
<tr>
<td>F. Huth &amp; Co.</td>
<td>German (via Spain)</td>
<td>1808</td>
<td>0.75</td>
</tr>
<tr>
<td>Kleinwort, Sons &amp; Co.</td>
<td>German (via Cuba)</td>
<td>1855</td>
<td>4.431</td>
</tr>
<tr>
<td>König Bros</td>
<td>German</td>
<td>1899</td>
<td>0.750?</td>
</tr>
<tr>
<td>Lazard Bros &amp; Co.</td>
<td>French</td>
<td>1870</td>
<td>1</td>
</tr>
<tr>
<td>Morgan, Grenfell &amp; Co.</td>
<td>Anglo-American</td>
<td>1838</td>
<td>n/a</td>
</tr>
<tr>
<td>Neumann, Luebeck &amp; Co.</td>
<td>South African/German origins</td>
<td>c.1900</td>
<td>3</td>
</tr>
<tr>
<td>N. M. Rothschild &amp; Sons</td>
<td>German (via Manchester)</td>
<td>1805</td>
<td>c.8.0</td>
</tr>
<tr>
<td>A. Rüffer &amp; Sons</td>
<td>German (via Lyons)</td>
<td>1872</td>
<td>1</td>
</tr>
<tr>
<td>J. Henry Schröder &amp; Co.</td>
<td>German</td>
<td>1804</td>
<td>c.3.00</td>
</tr>
<tr>
<td>Seligman Bros</td>
<td>American</td>
<td>1864</td>
<td>n/a</td>
</tr>
<tr>
<td>Wallace Bros &amp; Co. Ltd</td>
<td>Agency house/Scottish</td>
<td>1862</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source Chapman, *Merchant Banking* (1992), Table 3.4, p. 55

The extent of the overexposure of some of the merchant banks is apparent from Table 3.1. The crisis meeting of the accepting houses on 5 August 1914 included not just the large firm such as Kleinworts and Schroders, but also many smaller firms such as Arthur H. Brandt; Horstman; Frühling & Goschen; and König Brothers. Most of these smaller firms had insufficient capital to absorb any serious financial shocks. While it might be argued that as the partners of the accepting houses had unlimited liability so the capital in the business was further supported by their private wealth, the business capital of many of the firms was so small that it should have disqualified them from guaranteeing the liabilities of others. Unfortunately, their activities were essentially
unregulated, so this situation was allowed to exist. This problem was not brought on by the outbreak of war but exposed by it.

It soon became apparent that there was a severe credit crisis with the financial market frozen and, more worryingly, the entire banking system under threat of grinding to a halt.\textsuperscript{49} A series of measures were therefore taken. The immediate need was to remove the threat that the bills guaranteed by the accepting houses would not be honoured. A proclamation was issued on 2 August 1914, postponing for one month the payment of any bills due before 4 August. The next day the Postponement of Payments Act became law, formalising the proclamation in law and authorising the government to suspend other payments.\textsuperscript{50} It soon became apparent that further postponement was required. Lloyd George consulted Lord Rothschild. In a letter dated 21 August 1914, he expressed his anxiety about the position of the accepting houses as “there is a difficulty in some of them doing new business”. He further felt that “this is interfering with our efforts to set going once more the machinery of commerce and industry in this country”.\textsuperscript{51} Rothschild replied, “most emphatically” that “it is absolutely necessary that the moratorium should be renewed for at least one month, were it not renewed the effect would be disastrous”.\textsuperscript{52} It was decided that the general moratorium be extended for a month and considerably longer for bills.\textsuperscript{53}

In early September 1914, representatives from the accepting houses met with a Cabinet committee chaired by the Chancellor of the Exchequer and including the Governor of the BoE. The accepting houses were represented by F. Huth Jackson; “Mr Brandt”, presumably of Wm. Brandts; W. H. N. Goschen of Frühling & Goschen; F. C. Tiarks of Schroders; H. Hambro; and “H. Andre” \textit{sic}, presumably Herman Andreae of Kleinworts. The merchant banks were seeking an extension to the moratorium on acceptances for a period of two years after the end of the war. In addition, they wanted the BoE to provide, “where required, all approved acceptors with the funds necessary to pay all their pre-moratorium bills at maturity”.\textsuperscript{54} The merchant banks had been thrown a lifeline, and severe financial contagion across the financial system had been avoided.\textsuperscript{55} However, the potential for such financial contagion originated with the inability of many of the merchant banks to absorb losses on their acceptance business. Some of the merchant banks had overextended themselves, especially those with limited capital. The concentration of business by some firms in Germany and Russia had heightened the risks being taken. Events following the outbreak of war
had demonstrated that many of these firms were simply not adequately capitalised to absorb losses and had exposed themselves to high degrees of concentration risk. As the war progressed organisational weaknesses of these firms would also become exposed.

**Questions of Loyalty**

The impact of the First World War on the merchant banks cannot be assessed merely in financial terms. Most of these firms were partnerships, often family-based businesses, with narrow ethnic origins. At the outbreak of war, the City was a centre of international business and many nationalities were represented, but a significant number of merchant banks and stockbroking firms were of German origin. The backlash against these firms added to the existing financial problems faced by these firms.

For Schroders, the declaration of war created an immediate crisis as Baron Schroder had German nationality. This made the firm’s assets subject to seizure as enemy property. Frank Tiarks, a director of the BoE and a partner in Schroders, used his influential connections to get Schroder a royal licence granting him naturalisation rights. The merchant bank E. von der Heydt & Co. was less fortunate. This firm had three German partners. Two partners returned to Germany at the outbreak of war; the remaining partner was left to wind-up the business. The winding-up order had been issued on 11 June 1917 under the Trading with the Enemy Amendment Act, 1916. The senior partner, Eduard von der Heydt, was later accused of having been a German spy, although these charges were never proven. Another Anglo-German firm, Kleinworts, saw many of its German staff leave to enlist at home. Those who stayed behind were interned as enemy aliens for the duration of the war. The three partners of Kleinworts were all born in England so were meant to be above suspicion, but Herman Kleinwort was married to a German and consequentially was effectively under house arrest during the war.

The loyalty of merchant banker Samuel Japhet was also questioned. He recalls his response in his memoirs. He replied

> [h]ave you ever heard of a man who marries for a second time, do you not believe that such a man could be quite as faithful, loving, attached and honest to his second wife, as he has been to his first? Or do you imagine
that the love for a second wife can only be manifested by running down the first and by abusing her family?

His answer seems to have satisfied the authorities as officially his loyalty was not questioned again. In contrast, Edgar Speyer was publicly accused of disloyalty. He bore these insults from the start of the war for nine months, but in May 1915 he decided to act. He resigned his British honours in an open letter addressed to the Prime Minister, Herbert Asquith. He wrote that nothing is “harder to bear than a sense of injustice that finds no vent in expression”. He retired from all public positions, resigned as a Privy Councillor and asked for his baronetcy to be revoked. In late 1921, Crown proceedings were undertaken against him. He was found guilty of being disloyal by act and speech. Consequently, in December 1921, an order was issued under the Aliens Act to ensure that Speyer would henceforth cease to be a British national. He returned to America, and the firm Speyer Brothers was dissolved in 1922.

Some financiers did trade with the enemy, but few were caught in the act. J. P. Morgan wrote to Edward Grenfell about one such case. During hearings before a US Senate Committee in 1919, testimony was given that in 1914 the firm of Kuhn Loeb made a loan of $0.4m to the German Government, but Otto Kahn, a partner in the firm, was at that time a British subject. It was noted that he “took steps to transfer his valuable allegiances to the United States in 1917”. No action was taken against him, although there is no obvious reason for such inconsistent treatment.

In the Stock Exchange between the outbreak of war and the sinking of the Lusitania in May 1915, there was hostility towards firms of German origin. However, firms were more likely to leave the exchange owing to a lack of business, especially if their clients were predominantly resident in enemy countries. For example, Nelke Phillips & Co. and J. Stamm & Co. moved from stockbroking to merchant banking. After May 1915, hostility towards members of German and Austrian origin grew considerably. By March 1916, such members were banned. In February 1918, this ban was extended to members with Bulgarian, Hungarian and Turkish origin. Stockbrokers Jules Singer and Ernest Friedlander would also make the move to merchant banking, forming the merchant bank Singer & Friedlander.
While some merchant bankers and stockbrokers suffered the loss of reputation or their livelihoods as a result of their ethnic origins, others paid with their lives.

**Sacrifices and Succession**

When war broke out in August 1914, the popular belief in Britain was it would be “over by Christmas”. In those early days, there was no shortage of volunteers; half a million men joined up within weeks. In late August, a recruiting office was set up on Throgmorton Street in the City of London and within hours 210 men had enlisted, but within days this had risen to 1600 men. In view of the small number of staff in most merchant banks, the recruitment of staff, regardless of position, would have had a severe impact on the ability of these firms to continue to conduct business.

The records for the number of volunteers from each merchant bank are sketchy. The following were among the losses sustained by firms. In December 1914, *The Times* reported that eight men had enrolled from Samuel Montagu, including a Mr Broadbent who was lost on H. M. S Hawke; and sixteen men had enrolled from Speyers, including Sergeant Rodier, who joined the French army. Captain Edmund Byrne, who had also worked at Speyers since 1905, saw active service in Flanders and Gallipoli, being wounded in December 1914. He was killed in action in May 1916. Captain R. F. Guthrie of Balfour, Williamson in Liverpool was killed by machine-gun fire while leading a charge on 9 August 1916.

The international nature of the City also became very apparent as fellow workers often found themselves on opposing sides. As a new recruit at Bonn & Co., Lionel Fraser was introduced to the international team: Rudolf Hohenemser, a German, and Robert Bonzon, a Frenchman. Both later returned home to enlist; neither returned. Bonzon was badly wounded; Hohenemser was never heard of again and presumed lost in action. Fraser’s colleague and lunchtime companion, Willie Harman, was also lost in action. Fraser himself later saw action at Ypres and at the Dardanelles. By February 1915, Barings had twenty-nine men in military service, including three junior managing directors. By 1918, the number stood at over forty men, of which ten were killed or reported missing while a further eleven were seriously wounded. Patrick Shaw-Stewart, one of the youngest managing directors in the firm’s history
when appointed aged 25 in 1913, died on active service in 1917. His fame now rests on one of his poems, *Achilles in the Trench*, although he had had a very promising career in merchant banking before the war.

The losses for some merchant banks were double blows. The firms lost young talent, but often they were also members of the founding families. For example, Harold Barlow was working for the family firm of Thomas Barlow & Brother in 1914 when war was declared. He saw action in the “Salford Pals” battalion during the Battle of the Somme. In 1917, he transferred to the Royal Flying Corp. The consensus of reports is that he was killed in a dogfight with Manfred von Richthofen, the so-called Red Baron. Barlow also had three cousins killed during the war. The Hambro family lost Bertram Emil Hambro, who died of trench fever in April 1915 after leaving army. He had already lost a brother in the Boer War. Percival Hambro was killed on active service in France in 1918 and the future chairman of the bank, Ronald Olaf, Hambro also saw active service. Similarly, the Arbuthnot family lost Captain Ashley Herbert Arbuthnot, a partner in Arbuthnot Latham, who died of wounds received in action. Later Captain Maurice Armitage Arbuthnot, who had trained with Arbuthnot Latham before the war, died of pneumonia while on leave.

In January 1913, Huths appointed three additional partners. The 12th Earl of Leven, whose father’s firm had been acquired by Huths, was one of the new partners. However, he served for only six months, dying as a result of a riding accident. Another of the new partners was a member of the founding family, Austin Henry Huth; he died within three years at the Battle of Ypres in 1915. Frederick Cripps and Archibald Brown, who were partners in Boulton Brothers, served in Gallipoli. They survived the war, but their firm later faced bankruptcy in 1924. Whereas financial misadventure before the war had resulted in Arthur Grenfell and his younger brothers, the twins Francis and Riversdale, joining the army. Arthur won the Distinguished Service Cross and survived the war, but both of the twins were killed in separate actions; Francis winning the Victoria Cross.

The impact of these losses highlighted the organisational weaknesses of most of the merchant banks, particularly those relying on succession plans based on retaining tight family control. As a consequence, a number of firms had to take measures after the war to safeguard their futures by adopting new structures and policies, including incorporation, mergers and even the introduction of non-family members into partnership.
For example, Arbuthnot Latham converted to a limited liability company in 1921. The grounds given were “family reasons” as none of the four partners had a son to carry on business.\textsuperscript{83} In 1955, one of the original directors of Arbuthnot Latham Limited, Reginald Abel Smith, recalled that the reasons “were two-fold: the tragedy brought about by the First World War, and secondly my own insistent obstinacy”.\textsuperscript{84}

**Mergers and Reconstruction**

Mergers and reconstructions of merchant banks before the First World War were rare, but not unheard of. For instance, in 1902 Huths acquired Melville, Fickus & Co., which had been active in London in preceding partnerships since the mid-nineteenth century. One of its partners, the 11th Earl of Melville had been a director of the BoE.\textsuperscript{85} Similarly, Boulton Brothers absorbed Alexander Fletcher & Company in 1910, merchant bankers of Great St Helens; and Morris, Prevost & Co, which had been established in London since 1838, was acquired by Baring Brothers in 1914. Augustus Prevost had been Governor of the BoE in 1901–1903 and retired from the firm in 1912. These acquisitions tended to arise as a result of succession problems in the acquired firms.

Avoidance of foreign control was occasionally also a consideration. One example among the larger firms was Lazards. In December 1919, the London partnership became a private limited company as the BoE began to restrict foreign ownership of UK banks. A 45% stake was acquired by the conglomerate S. P. Pearson & Sons.\textsuperscript{86} *The Times* emphasised that the sole object of the reconstruction was to regularise the status of the firm as an independent British bank instead of “its capital being in hotch-pot with that of the Paris firm”.\textsuperscript{87} It remained a fear that London house might fall into German hands if the Paris house was taken over.\textsuperscript{88}

Other firms aimed to cover their weakened financial position by merging. After the war, there was an increase in the number of mergers especially among the financially weaker firms. For example, Cunliffe Brothers, a founding member of the AHC, was absorbed by Frühling & Goschen to form Goschen & Cunliffe. The merger took place in January 1920—five days before the death of Lord Cunliffe, the firm’s senior partner and former Governor of the BoE. In 1921, Bonn & Co. was acquired by Helbert Wagg, while in 1923 the merchant banking arm of the once wide-ranging Russian investment group Wogau & Co. was subsumed into Guinness Mahon.
One of the most successful post-war mergers occurred in 1921 between C. J. Hambro & Son and the British Bank of Northern Commerce, creating Hambros Bank Limited. While Hambros acceptances had returned to their pre-war level by 1919, its position was weakened by debts of almost £600,000 in Germany and Austria. Everard Hambro, however, viewed the merger as the beginning of the end for family-owned merchant banks. His view was that the firm’s merger would mean “to a certain extent, one of the last of the private banking and acceptance houses will efface itself”. He felt that he had been “somewhat rushed into the matter and to be quite unhappy”. He recognised that

Figures have grown so large in the Joint Stock Banks that they fairly swamp the private house and it is natural that a private individual should not care to risk his whole fortune, however big, when somebody’s mistake may, in a moment, cost him a million pounds.89

Protective measures were felt necessary.

Some firms aimed to address concerns about succession planning and the possible withdrawal of partnership capital by creating corporate partners. While Huths had introduced a corporate partner in 1903, the Acorn Trust Limited, other firms adopted such arrangements after becoming aware of their vulnerability. In October 1920, Kleinworts established the Drake Trust Limited, which became a corporate partner in the firm. It had no liability for losses but was eligible for 50% of the firm’s profits. The trust was able to lend working capital back to the firm and safeguarded the partnership by ensuring a smooth secession.91 Also in 1926, Guinness Mahon introduced the Erin Trust Limited as a corporate partner.92 Much later, after the financial crisis of 1931, Schroders adopted similar arrangements when in March 1932 the trustees of the Schroder family trusts established Veritas Trust Limited as a corporate partner in the firm.

**Conclusion**

In the decades before 1914, the established merchant banks had steadfastly avoided innovation. While the business of the traditional firms became increasingly geographically concentrated, emerging firms especially those from a stockbroking background took advantage of new opportunities. Although these new opportunities were not without risk,
the traditional firms missed them almost completely mainly because of inertia rather than prudent risk management.

The merchant banks lost market share particularly in acceptance finance because of growing competition from other financial institutions as well as the increasing use of bank overdraft facilities and telegraphic transfers to settle trade transactions. These innovations together with the demand for capital in developing economies are likely to have driven the growth in the use of finance bills, which were estimated to account for 60% of the pre-war London money market. The funding of long-term investment with short-term finance was bound to end in disaster. The outbreak of war in 1914 provided the catalyst.

While the outbreak of the First World War seems to have taken the City by surprise, government action eventually prevented financial contagion that would have threatened the stability of the City and indeed the British economy as a whole. The merchant banks in particular had been given a lifeline, but the shock and its aftermath would prove terminal for a number of firms. Many of these firms were in a weak and highly vulnerable condition before the war. They were often small, family-controlled partnerships with limited capital and inadequate succession plans. These weaknesses were cruelly exposed by the war.

**Notes**

7. In 1888, the London house of Rothschild had raised capital for the Naval and Armaments Company. Subsequently, they dealt with the merger of the Maxim Gun Company and Nordenfelt Guns and Ammunition Company. Lord Rothschild had a substantial holding in the new company. Later in 1897, they financed the Vickers brothers’ takeover of the


15. TNA, T170/14 Treasury: ‘Papers of Sir John Bradbury’. ‘Correspondence, etc. The Government and the Banks, August–September 1914’, ‘Note from J. M. Keynes entitled “Is the suspension of specie payments necessary?”’.

16. TNA, T170/14, Note from J. M. Keynes: ‘Is the suspension of specie payments necessary?’ (emphasis in original).


27. By September 1918, there were considerable amounts still owed to the Bank of England by enemy banks from advances made on their pre-moratorium acceptances. See: TNA, T 1/12399.

28. *HPD* (Commons), Vol. 68, 18 November 1914, written answer from Lloyd George to question from Conservative MP Joynson-Hicks.


30. The end of ‘business as usual’ occurred in Britain with the passing of the Trading with the Enemy (Amendment) Act of January 1916, which empowered the Board of Trade to wind-up businesses or confiscate their assets if they were suspected of trading with the enemy. See: McDermott, ‘Trading with the Enemy’, *Canadian Journal of History* (1997).


32. There is insufficient financial information on the merchant banks in 1914 to demonstrate this effect, but it has been shown to have occurred in the 1931 financial crisis—see: Olivier Accominotti, ‘London Merchant Banks, the Central European Panic, and the Sterling Crisis of 1931’, *The Journal of Economic History*, Vol. 72, No. 1 (March 2012). In 2008, the growth of shadow banking institutions undertaking maturity transformation activities was one of the causes of financial crisis—see: FSA, *Turner Review* (2009), p. 21.


34. W. T. C. King, *History of the London Discount Market* (London, 1936), pp. 134–135. King noted that in 1846 many bills sent to London for discount were finance bills. Furthermore, some agents were prepared to manufacture fraudulent bills, which then entered circulation and became quite difficult to detect. The financial crisis of 1847 followed a period of speculative investment in railway stocks that led to commercial failures and then a monetary crisis.

35. King, *London Discount Market* (1936), p. 289. In 1875, there were a number of frauds involving finance bills. Several discount houses were affected and most of the London banks. For example, London & Westminster Bank held over a £1m in fraudulent bills.
38. TNA, T200/8, Committee on Finance and Industry (Macmillan Committee), Minutes of evidence, 1929–1931 (hereafter Macmillan Committee evidence), Q.1760.
40. TNA, T200/8, Macmillan Committee evidence, Q.1273.
45. LMA, Ms.29295/1, AHC, 1914–1927, Minutes of meeting, 5 August 1914.
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51. TNA, T170/25, Papers of Sir John Bradbury, Moratorium and Banking Facilities, Letter from Lloyd George to Lord Rothschild, 21 August 1914.
52. TNA, T170/25, Letter from Lord Rothschild to Lloyd George, 28 August 1914.
53. Lloyd George informed Lord Rothschild of the Cabinet decision before he told the House of Commons. In a letter dated 28 August 1914 he wrote ‘I should be obliged if you would kindly treat this letter as confidential until Monday – except of course in so far as your brother is concerned’. Nowadays this would be regarded as an extraordinary disclosure of confidential information. See: TNA, T170/25.
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CHAPTER 4

Favourable Treatment

After the First World War, Britain’s economic policy was aimed at restoring Britain to its former position of pre-eminence, especially in the international financial sector. There was no clear consensus about how this objective was to be achieved and whether such restoration meant a return to an imagined earlier golden age or the creation of a new order. The historiography contains various works that argue that the City had undue influence in the setting of economic policy and formed a self-perpetuating community of special interests. These viewpoints have been represented in different guises such as “gentlemanly capitalism”, the “City-Bank-Treasury nexus” and the “City aristocracy”. P. J. Cain and A. G. Hopkins have coined the term “gentlemanly capitalism” to describe the domination of the British economy, especially from 1850, by landed and commercial elites.1 Geoffrey Ingham has formulated the idea of the City-Bank-Treasury nexus. He has argued that by the late nineteenth century there was a system of interdependency between these institutions.2

Since many of the merchant banks emerged from the war in poor shape especially those firms that had extensive pre-war business in Germany or Russia, the immediate post-war period provided ample opportunity for special treatment as a number of traditional City firms that were struggling to survive. What evidence therefore exists in the archival records of favourable treatment of such firms or undue influence over economic policies by them? This chapter will set out to challenge the historiographical claims that the City used its influence to obtain special treatment by examining the struggles of some merchant banks to

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re-establish their business in the 1920s. Using evidence from Treasury files and other records held at the National Archives, a different picture of the City at this time emerges. The diaries of Montagu Norman also provide further useful insights.

A number of merchant banks that still had debts to the Bank of England (hereafter BoE) at the beginning of the 1920s as a result of advances made to cover approved bills that had been accepted by them before 4 August 1914—the so-called pre-moratorium bills. How were these firms treated? If any special arrangements were made, why should these not be regarded as favourable treatment? By way of an introduction, the chapter starts with a brief review of the historiography of financial elites, which forms the bedrock on which the assumptions of favourable treatment of City firms have been built.

**Financial Elites**

Youssef Cassis has undertaken extensive research on the pre-war City banks. He has written that in 1914 the City was dominated by an “aristocracy” of merchants and bankers. His works dealing with periods after the First World War still rely heavily on the notion of influential financial elites. While much of the historiography on this subject deals with the period before 1914, there have been few works that have dealt with the interwar period.

Other historians and social scientists have tried to establish a link between Britain’s supposed economic decline in the twentieth century and the alleged control of economic policy by financial elites for their own benefit. For example, Bernard Elbaum and William Lazonick have claimed that the City gave rise to “cohesive class of finance capitalists” that exercised power over national policy to a much greater degree than industrial capitalists. Similarly, although he wrote as a social scientist in the 1980s, Michael Lisle-Williams in a series of articles has argued that the merchant banks’ tight control over the ownership of their firms together with kinship and social ties enabled them to have a significant ongoing influence on economic policy. He refers to the City’s closed community that created “a strong unity of purpose”. Martin Daunton has questioned this assertion of dynastic continuity, pointing out that the City had “a high level of fluidity”. Stanley Chapman and Ranald Michie have also highlighted the constant change in the City, especially during
the interwar period, which saw the demise of many merchant banks and the entrance of a number of new influential figures. While some of the senior figures in the larger merchant banks were consulted on policy issues, it does not necessarily mean they had undue influence.

There is also little evidence of collective action by City firms in support of one another. Michael Moran has noted that the City was poorly represented in the interwar period with individual firms looking after their own interests rather than taking a collective stance. Evidence for this view is provided by the Accepting Houses Committee (hereafter AHC)—the main representative body for the merchant banks. It met infrequently in the 1920s and, when it did, discussions were mainly focused on debt recovery for those houses most severely impacted by the war.

In considering the historical approach to financial elites, Cassis has suggested that research should be undertaken into the factors that explain why the City was seemingly “immune to the type of entrepreneurial failure observable elsewhere”. He seems to be suggesting that favourable treatment may be an explanation. However, since the City has throughout its history and certainly in the interwar period experienced a considerable number of failed businesses and the rise of new ones, this contention and others like it cannot go unchallenged. An examination of the treatment in the 1920s of those City-based merchant banks that struggled to recover after the war should provide an alternative perspective.

**INTENSIVE CARE**

The merchant banks were not alone in receiving financial support at the outbreak of war in 1914. On 13 August 1914, it was announced that the BoE would discount at the bank rate, without recourse to the holders, all approved bills that had been accepted before 4 August 1914. On 5 September 1914, the BoE further announced that it would provide acceptors funds to pay all such pre-moratorium bills at maturity. The interest on these advances would be 2% above the bank rate and any amounts not recovered by the acceptors would not be claimed by the BoE until one year after the end of the war. The amounts advanced by the BoE were under Government guarantee.

At the outbreak of war, the BoE discounted bills worth £120m as explained in a speech by David Lloyd George during the third reading of the Government War Obligations Bill on 27 November 1914.
This was a huge injection of cash into the London money markets, albeit at a fairly penal rate of interest. It should have provided the merchant banks with an opportunity to manage their difficulties. It is an indication of the fundamental problems that some of these firms faced that they were still struggling to repay their pre-moratorium advances eight years later. The official date for the termination of the war was eventually agreed as 1 September 1921.\(^{17}\) All outstanding pre-moratorium advances were therefore due to be repaid by 31 August 1922. Those merchant banks that still had outstanding advances were now under pressure to meet the repayment deadline.

In a letter to the Treasury dated 20 December 1921 from Ernest Harvey, at that time Chief Cashier of the BoE, the total amount of advances made against pre-moratorium bills still outstanding, including interest, was recorded as £14,113,721 of which £6,811,721 was owed by nine accepting houses. Harvey wrote that four of these houses “will probably be in a position to liquidate their debts by 31st August next, whilst a fifth (Messrs. Horstmann [sic]) whose debts amount to £400,000, is to all intents and purposes a German firm and is doing no further business here”. He went on to write that “in the Governors’ opinion [it is] doubtful whether any of the remaining four firms can repay the amounts due from them within the prescribed limit of time without being forced into liquidation”.\(^{18}\) The four doubtful debtors recorded in his letter are shown in Table 4.1.

<table>
<thead>
<tr>
<th>Accepting houses likely to need further support in late 1921</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
</tr>
<tr>
<td>Frederick Huth &amp; Co. 1,100,000</td>
</tr>
<tr>
<td>Kleinwort, Sons &amp; Co. 2,200,000</td>
</tr>
<tr>
<td>Wm. Ladenburg &amp; Co. 400,000</td>
</tr>
<tr>
<td>A. Ruffer &amp; Sons 1,400,000</td>
</tr>
<tr>
<td>5,100,000</td>
</tr>
</tbody>
</table>

(Source Author’s table based on TNA, T160/998, Advances on Pre-moratorium Bills: Arrangements after 31 August 1922, Letter from Harvey to the Treasury, 20 December 1921)
Harvey suggested that the existing arrangement should be terminated as originally planned on 31 August 1922. However, he proposed that the four Accepting House debtors specially named above, whose main business as credit givers to the Market and the Commercial World in the form of acceptances would necessarily suffer were their current liabilities not still to rank before these pre-War liabilities, and perhaps some others, be offered advances by the Bank for a further period not exceeding two years.\textsuperscript{19}

The proposal was accepted by the Treasury in a letter marked “Confidential” dated 28 December 1921. While the phrase “and perhaps some others” left some leeway, it is nonetheless surprising that further advances were made to three merchant banks not previously mentioned. Also, notwithstanding the Governors’ opinion only eight months beforehand, the largest doubtful debtor, Kleinworts, had somehow managed to repay its debt of £2.2m.\textsuperscript{20} At least £750,000 was borrowed from the London, County & Westminster Bank (hereafter LCWB).\textsuperscript{21}

The four firms given advances on or before 31 August 1922 by the BoE under Treasury guarantee are shown in Table 4.2. Harvey also refers to an “advance of £620,000, which has been the subject of certain conversations between Sir Basil Blackett and the Governor, has also been made to Fred. Huth & Co.”\textsuperscript{22} In a reply dated 6 September 1922 from Otto Niemeyer to the Governors, the advances totalling £1,792,000 were approved and it was acknowledged that

\begin{table}[h]
\centering
\begin{tabular}{ll}
\hline
\textbf{Favourable Treatment} & \textbf{\£} \\
\hline
Arthur Brandt & 104,000 \\
Pinto Leite & Nephews & 248,000 \\
London Merchant Co. & 340,000 \\
A. Ruffer & Sons & 1,100,000 \\
& & \textbf{1,792,000} \\
F. Huth & Co. & 620,000 \\
& & \textbf{2,412,000} \\
\hline
\end{tabular}
\caption{Advances to accepting houses in August 1922}
\end{table}

(Source Author’s table based on TNA, T160/998, Advances on Premoratorium Bills: Arrangements after 31 August 1922, Letter from Harvey to the Treasury, 4 September 1922)
an advance of £620,000 has been made to Fred. Huth & Co. and in view of the special circumstances of this case and on the understanding that any further sums required to support this firm will be advanced by the Bank. They [the Lords of the Treasury] are prepared to agree that this advance of £620,000 should come under the above-mentioned arrangement, and further that it should rank after such further advances made by the Bank.23

The total advances under the agreed arrangement were therefore £2,412,000. However, there were other struggling merchant banks that did not receive additional funding but were given time to repay their debts and, in some cases, attempts were made to restructure these firms.24 Ladenburgs was named as one of the four doubtful debtors in 1921, but it did not receive additional advances from the BoE. The firm had been established in 1785; it was one of the oldest firms in the City.25 There were attempts to find a partner who might inject some fresh capital into the firm, but such an investor would be loath to take on pre-moratorium liabilities. Ben Guinness of the banking branch of the Guinness family came close to concluding a deal.26 The Governor of the BoE, Montagu Norman, recorded the following entries in his diary.

W Ladenburg & Co. may continue with addition of Ben Guinness + £500m.27 Ladenburg as to Guinness joining firm without personal liability for C[old] Storage debts.28

Ladenburgs owed £400,000 in respect of so-called cold storage bills—pre-moratorium bills held by the BoE; a quarter of the amount was for German bills. Norman had further meetings with Arthur Ladenburg, who wanted more time to repay the firm’s debts and asked for a guarantee for a proposed Russian venture. While Norman was willing to consider a debt extension once the firm’s books had been examined, he would not contemplate the Russian venture; instead, he suggested that LCWB may be able to help.29 Ladenburgs had capital of between £80,000 and £100,000, but illiquid debts of over £400,000, Norman therefore eventually concluded “position hopeless”.30 The settlement reached with the BoE was described in a letter to the Treasury in 1926. The BoE released Arthur Ladenburg from his personal
liability as a partner in the old firm of Ladenburgs in consideration of his acknowledging a debt of honour. The assets of the firm were to be liquidated to reduce the firm’s liabilities. The other assets of Ladenburg and his father were to be pledged to the BoE, but it was noted in the settlement that

Mr. Arthur Ladenburg has no assets outside his business apart from the house in which he lives, which is heavily mortgaged, and he was unable to obtain employment of any kind, his legal release was granted in order to enable him to earn a living by trading on his own account with capital which some friends are willing to lend him provided he were released from his debt to the Bank; this course was considered preferable to maintaining him and his family out of the remaining assets of the Estate.31

The settlement terms were not punitive, but neither were they generous. The aim was to recover the debts owing to the BoE by allowing the younger Ladenburg a chance to earn a living.

The attempts to recover the outstanding debts from Ladenburgs continued for several years. An amount of £195,787 was still owed by 1933 when recoveries

yielded slightly over £14,000, the bulk of which became available owing to the death of H. Ladenburg, formerly the senior partner; there now remains for this account only small Polish debts which are not expected to realise more than a trifling amount over a term of years.32

The firm was finally liquidated in 1939 when recoveries “amounted to £1818:16:10 which represent the final payments from [the firm] whose liquidation is now complete”. The remaining balance of £189,806:16:10 was written off.33 The BoE showed great persistence over several years in trying to recover its advances. Similar situations arose with other failing merchant banks in the 1920s; Ladenburgs was not an isolated case.

In 1923 Arthur Ladenburg managed to raise sufficient capital to become a partner in another struggling firm, J.C. im Thurn & Sons, which had been established in 1844.34 In a letter dated 3 October 1922 from C. Paget of the Discount Office at the BoE to Niemeyer, an outstanding balance at 1 September 1922 of £128,505 due from
Thurns was disclosed. The letter adds, seemingly by way of explanation for the previous omission, that the firm’s position “was set out in detail in my [Paget’s] letter to the Secretary to the Treasury of 26th June 1921 and remains unaltered”. Similarly, a letter dated 30 November 1925 from the Discount Office to the Treasury states that

In 1921 a new partner, J. R. Warren, injected £250,000 into the firm on the understanding that he would take no liability for the firm’s pre-moratorium debts. The BoE therefore agreed to take investments from the old partners as security against these debts, apart from certain investments retained by the widow of the former senior partner to give her an income of £2000. Once again, these arrangements were more pragmatic than generous.

In 1924 another new partner joined Thurns, Albert Johan Fransella. He had been the London representative of the Rotterdamsche Bankvereeniging. The partnership no longer contained members of the founding family, but then comprised Warren, Ladenburg and Fransella. By the end of 1925, the old partnership was wound-up, and a private limited company established. It was called J.C. im Thurn and Sons Limited and had capital of £1m of which two-thirds was paid up. Fransella was managing director and there were three new directors. Neither Warren nor Ladenburg were involved. Although the details of the arrangements entered into by the partners are unknown, these changes are testament to the highly fluid nature of the City.

In January 1926, the BoE reported that

[as regards the advances to Ladenburgs and im Thurns, we have stopped piling up the interest in our Books as there is no prospect of our getting it; and as we are now practically the only creditors there is no likelihood of their being made bankrupt.]
Disposals of assets held by the old firm of Thurns continued into the 1930s. The BoE reported that “five tracts of land in South America have been sold [and] there still remains for disposal lands in Paraguay and in Canada” in addition, “a receipt of £350 […] in respect of the liquidation of the South Barracas (Buenos Ayres) Gas & Coke Co. Ltd.” was obtained. Subsequently, it reported that “the plots of land in Paraguay have been sold; options have been granted on the second plot but it seems unlikely under present conditions that a sale will be effected”. Once again, it seems that every effort was made to recover the outstanding debts and a final settlement was reached in 1932 with the remaining debt of £12,056 being “written off as irrecoverable”.43

In Harvey’s letter to the Treasury on 20 December 1921, he referred to Horstman and Co. as owing £400,000. He dismissively stated that the firm “is to all intents and purposes a German firm and is doing no further business here”.44 Like Ladenburgs and Thurns, Horstman was an old-established City firm. It had commenced business in London in 1802 and was one of the founding members of the AHC.45 By the mid-nineteenth century, the firm’s senior partner was Adolf Deichmann; a member of the family that owned one of Germany’s most prestigious private banks, Deichmann & Co.46 On his death in 1907, his second wife, Baroness von Deichmann (née Hilda Elizabeth de Bunsen) became the owner of the firm.47 Her daughters also held loan stock in the firm. At the outbreak of war in 1914, the Baroness faced conflicting loyalties. Her brother, Maurice de Bunsen, was British ambassador to Austria, but her son and two sons-in-law were serving in the German forces.48 Questions were asked in Parliament about whether Horstman should have been allowed to continue in business. It was explained that Baroness von Deichmann was a British subject of British birth and the partnership that existed at the outbreak of war had been dissolved on 1 January 1915 with respect to its German partner. It was conceded by the Board of Trade that, although the “business has been carried on by people who do appear to have very strong enemy interests”, they were British subjects.49 No licence was therefore required to carry on this business, but clearly its prospects were extremely limited. Eventually, the firm was sold on 19 December 1928 to a newly created private company called J. Horstman and Co. Limited. As in the case of the Thurn Company, Fransella was a director together with six others. The issued
capital of the new company was £609,004. The consideration for the old firm was £11,000, which was allocated £10,000 for goodwill and £1000 for book debts.\(^{50}\) It is likely that the debts of the old firm to the BoE were repaid by the new company.\(^ {51}\)

Two other merchant banks received further advances from the BoE in 1922. They were Pinto Leite & Nephews and Arthur H. Brandt & Co., a founder member of the AHC. Their advances were £248,000 and £104,000, respectively. By 1924, Pintos had fully repaid its advance.\(^ {52}\) However, it went bankrupt in April 1927 because of the default of a Portuguese debtor, but on that occasion no support was offered.\(^ {53}\) In the case of Arthur H. Brandt & Co., the senior partner, Arthur Brandt, died in August 1923 and the firm was continued by the remaining partners.\(^ {54}\) In October 1924, it was acquired by London & Foreign Banking Corporation (hereafter LFBC).\(^ {55}\) A year later an unlimited company called Arthur H. Brandt and Company was incorporated with LFBC as its major shareholder. By 1927, the old firm’s debts had been reduced to £1065.\(^ {56}\) Unfortunately, the new firm was not successful. By November 1930, it had been put into voluntary liquidation.\(^ {57}\) The failure of these firms usually created personal hardship for the partners as they did not have the cushion of limited liability.\(^ {58}\) No evidence has been found of altruistic offers of support from elsewhere in the City—commercial considerations were paramount.

In the case of five old-established merchant banks—Ladenburgs, Thurns, Horstmans, Pintos and Arthur H. Brandt—the BoE did not provide any favourable treatment and no other investors came to their assistance. Two of the firms received further advances from the BoE in 1922, but beyond that they either had to acquire fresh capital or face a lengthy run-off as their assets were liquidated to repay their debts. The goodwill associated with Thurns, Horstman and Arthur H. Brandt was obviously felt to be sufficiently untarnished for attempts to be made to use the names under the guise of new companies backed by private capital.\(^ {59}\) The failure of these new companies and the losses incurred by their founders is evidence that there was no immunity to entrepreneurial failure at this time as suggested by Cassis.\(^ {60}\)

In addition to those firms that failed due to pre-moratorium debts, other merchant banks were allowed to fail in the 1920s without any offer of support from the BoE. For instance, Mildred Goyeneche was allowed to fail in 1921. This merchant bank had carried on business in
Spain, South America and India since 1796, acting as bankers to many important Spaniards, including Royalty, and as agents for the Bank of Spain. In 1920, it got into difficulties because of the failure of Banco de Barcelona. It suspended payments in March 1921. Another example was Dent Palmer & Co., which had been established in about 1820. This firm got into difficulties towards the end of the war when “the firm had made considerable advances against shipments of merchandise and had incurred heavy losses through the depreciation of goods left on its hands”. It is likely that by 1919 the firm was insolvent, but it survived into the 1920s when financial irregularities finally brought it down. Both of these firms had provided Governors to the BoE. However, like the five firms already mentioned, no evidence has been found of attempts to use influence to save these firms. Nevertheless, there are some instances where the BoE went to extraordinary lengths to support some merchant banks. Why were these cases treated differently?

**The Securities Trust**

R. S. Sayers wrote that “Huths had taken £m3.3 from the Bank against pre-moratorium bills, an amount exceeded by only three other accepting houses”. One of these firms was Schroders. Richard Roberts wrote that the firm had borrowed £5.1m from the BoE under the pre-moratorium bills facility of 5 September 1914. He also pointed out that a further amount of £1m was borrowed from the BoE in respect of loans other than pre-moratorium bills. The following entry in Norman’s diary probably is a reference to this additional loan. Frank Tiarks, a partner in Schroders and a director of the BoE, is recorded as being reluctant to approach the firm’s own bankers, LCWB, but Norman is happy to provide a loan. Norman’s diary has this entry.

F.C.T. [Frank Cyril Tiarks] enquired as to loans, when required, on their £1mill$ 3½War Loan: unwilling to ask L.C. & West$ & needs accommodation here, or must sell.

I said I c\(^d\) conceive no time when we w\(^d\) not lend to him on such Gov$ Sec. (Even without forcing him to apply first to his own Banker) but that period & margin w\(^d\) be at our absolute discretion.

He seemed satisfied.\(^{67}\)
Roberts stated that Schroders did not repay the BoE’s loan in full, but he gave few details and the archival records have yielded little further information. The failure to repay its debt in full suggests that Schroders received favourable treatment from the BoE. However, if it was the loan referred to in Norman’s diary, then it was almost certainly secured by Schroders’ holding of 3½% War Loan stock. Rather than implying favourable treatment, Schroders’ inability to settle in full might suggest that their finances were in a poor state. The BoE’s treatment of Schroders in this instance was probably in accordance with normal banking practice. Just as other firms were given time to liquidate assets to cover their debts, it is highly likely that Schroders’ debt was recovered by selling the War Loan used to secure the debt. There are, however, two instances of special arrangements recorded in the archives that are less easy to explain.

During the war, the Treasury gave support to a variety of firms. As a result, it had significant holdings in strategic industries, including the shipbuilding, shipping and metallurgy industries. Special arrangements occurred in some sectors, including international finance. Later the Treasury came under increased pressure to liquidate its industrial and commercial holdings to bolster government finances, but the generally poor financial situation, especially in certain trades, hindered these disposals. In May 1923, Norman wrote to Niemeyer with “an idea for you to consider”. He wrote:

You have a number of miscellaneous securities, some good, some bad: some Home, some Foreign: some with and others without an actual value. Further, you are from time to time being pestered about one or other of these securities and it has been difficult to maintain a continuous policy as to holding or selling, especially where the Disposal Board has been concerned.

He suggested forming a private company to hold the securities “with a nominal deferred and a large preferred capital”, which “might be obtained from the public, or otherwise”. The deferred capital would be held by the Treasury. The preferred shareholders would be repaid from the sales proceeds as the investments were disposed of. The company thereby created would be operated by the BoE on behalf of the Treasury. The names later suggested included “The Assets Corporation” or “The Treasury Trust”, but it was finally agreed that it would be called the Securities Trust.
Niemeyer cautiously adopted the plan. Five months later, he wrote to Norman stating “[w]e can now say firmly that we would put into the Assets Company the items in the annexed list”. His list including holdings in the British American Nickel Corporation (of Canada), British Celanese Limited, London Merchant Bank Limited (hereafter LMB), Anglo-Austrian Bank, Banque des Pays de l’Europe Centrale’s Länderbank Certificates of Indebtedness, and Austrian Government Guaranteed Sterling Bonds.74

In a subsequent letter, Norman raises a “technical question” concerning the shares in the LMB. Since these shares represented the pre-moratorium debts that were repaid to the Treasury by the BoE, he asks whether the repayment should be deducted from the £2m capital being provided by the BoE to the Securities Trust. He then raises the similar case of the merchant bank A. Rüffer & Sons, which owed the BoE £700,000 and was in the process of incorporating to issue shares to cover the debt. He asks

[w]ould it be wise for these Shares also to be transferred to the Securities Trust in addition to those in the list attached to your letter of 22nd October? I cannot pretend that they are worth their face value or anything like it, but they too will represent a debt due to the Bank under the guarantee of the Treasury.

Norman went further, suggesting the possibility of transferring all such debts to the Securities Trust. He added

I am not overlooking the idea we have more than once discussed that these [changed in handwriting to “all”] guaranteed debts (and other similar ‘Cold Storage’ debts, not at present ripe to be thus funded) regarding which extreme secrecy is needed should somehow be included in the terms arranged for management over a series of years”.75

In the pedantic manner of a Treasury mandarin, Niemeyer corrected Norman by pointing out that, strictly speaking, the Treasury were being repaid by the debtor out of money advanced by the BoE under Treasury guarantee. He nonetheless agreed to the arrangement.76 Regardless of the niceties of the explanation, it was a financial sleight of hand to hide the Treasury’s liabilities from official scrutiny. The deception was even maintained between the BoE and the Treasury—in February 1924
Harvey reported to the Treasury that the pre-moratorium debts of the LMB and Rüffers had been repaid, whereas they were actually now funded through the Securities Trust.\textsuperscript{77} Six days later, Harvey wrote to Niemeyer to advise him that

\begin{quote}
[t]he Governor particularly requests that from any figures or statement or information given [about the Securities Trust], all mention of the shares of the London Merchant Bank and of A. Rüffer & Sons may be excluded, and that the existence of those Securities may be kept absolutely secret.\textsuperscript{78}
\end{quote}

There were two reasons for this secrecy. Firstly, the BoE and the Treasury had conspired to mislead the Government about the Treasury’s investment holdings. Secondly, and perhaps more importantly, the BoE clearly wanted to maintain the impression of the financial soundness of these two merchant banks.

Inevitably, questions started to be asked about the Treasury’s investments. In late 1925, Leslie Hore-Belisha, the Liberal MP, asked in Parliament whether the Chancellor of the Exchequer will give the names of the companies in which the Treasury has a financial interest, specifying the amount of the interest in each case and stating the annual profit or loss obtained on the taxpayers’ account in each year since the holdings were acquired, and the present value of the shares?\textsuperscript{79}

Similarly, Frederic Wise, the Conservative MP, made enquiries about the holding of Austrian Government Guaranteed Sterling Bonds.\textsuperscript{80} In response, Treasury officials prepared a briefing note for Niemeyer; it was marked “Confidential (not to be filed)”.\textsuperscript{81} Furthermore, in November 1926, Niemeyer received a letter from M.R. Ramsey of the Exchequer and Audit Department. He wrote with a tone of mild threat “I don’t want to pursue this matter officially in detail, but I should rather like to know what is the latest position in regard to the advances which were made from the Vote of Credit on pre-moratorium bills, etc.”.\textsuperscript{82} In a handwritten Treasury briefing note marked “SECRET”, which was written to “enable Sir Otto Niemeyer to satisfy Sir M. Ramsey”, concern was expressed about “how much Sir M.R. already knows about Securities Trust” in particular the holdings in the LMB and Rüffers.\textsuperscript{83}
More parliamentary questions were asked by Colonel Wedgwood, the Labour MP, in February and March 1927 about the Austrian bond holdings. In reply Winston Churchill, the Chancellor of the Exchequer, told him that the bonds had been sold in 1923 and the proceeds “paid into the Exchequer as Miscellaneous Revenue”. Not only was this questionable accounting as the proceeds of a capital asset were being treated as revenue, but in reality the proceeds were merely recycled amounts from the BoE through the Securities Trust. In order to maintain the deception, Norman proposed to Niemeyer that the trust’s Austrian bonds should be sold and shares in the Anglo-International Bank be bought. Since this bank was another vehicle controlled by the BoE, this merely buried the questionable bonds deeper in the financial labyrinth. The proposal was recorded in a confidential Treasury note, once again marked “not to be filed”. The “intention being to choke Wedgwood off if he put down further questions” and, if necessary, “tell him to withdraw his question as against the public interest or to see him”.

The mounting pressure led inevitably to the unwinding of the Securities Trust in 1927. Niemeyer accepted an offer from the BoE “to relieve His Majesty’s Government of all liability” in respect of the troubled private bank Cox and Co. and the merchant bank Huths. The BoE also offered “to purchase from the Securities Trust 600,000 shares of the Anglo-International Bank at cost price of £1,000,000”, concluding “a satisfactory settlement of all outstanding questions of this nature between the Bank and the Treasury”. LMB was transferred to Guinness Mahon at the outbreak of the Second World War. Rüffers continued to receive support from the BoE, but by 1932 its position had worsened and the business was eventually liquidated in 1940 with a loss to the BoE of £200,000.

Since there is no evidence that the City was directly involved in the Securities Trust, it cannot be treated as an example of the mutual interdependency suggested by Ingham in his concept of a City-Bank-Treasury nexus. It was a deception devised by the BoE to relieve the pressure on the Treasury to liquidate its holdings. Since the Treasury was the principal party to the deception, why was Norman so concerned about keeping the arrangements secret? The explanation may be found in the claim that disclosure about the Securities Trust was “against the public interest”. Banks must provide an assurance that deposits are safe, and obligations will be honoured. Cain and Hopkins’ assertion that the City assumed
that London’s international financial standing might be recovered based on the principle that an “Englishman’s word was always his bond” misses the point.94 If Britain were to restore its international credit, confidence in its major financial institutions was paramount. It had nothing to do with honourable or gentlemanly behaviour, but simply the creditworthiness of the nation and its banks. The extraordinary circumstances involved in the support of Huths add weight to this explanation.

**MORE SECRET ARRANGEMENTS**

According to Sayers, the BoE’s assistance to Huths “was the operation most deeply rooted in the established habits of the Bank”.95 The firm was established in London in 1809 specialising in trade with Germany, Spain and South America. Later in 1917, it established an operation in New York. At the outbreak of war in 1914, the firm encountered severe difficulties arising from losses on its acceptance business in continental Europe.96 It owed the BoE £1,500,000, but by the end of 1922 the BoE had gone much further in its determination to support Huths. On 30 December 1922, the BoE entered into a secret agreement with the Board of Trade and the merchant bank König Brothers. The firm agreed to merge with Huths and provide a capital injection, but it did so in return for official assurances that foreign claims would not be pursued against Königs.97 Essentially, foreign creditors were being denied their right to recover amounts owed by Königs so that the funds could be used to rescue Huths. Additionally, the BoE advanced £500,000 to the König brothers personally and agreed to transfer Huths’ frozen assets into a realisation company called Cordillera Investment Limited.98 This effectively gave Huths a fresh start.

The extent of the pressure to find a solution for Huths can be gauged by the contents of a handwritten letter dated 12 August 1922 to Sydney Chapman, Permanent Secretary to the Board of Trade, from Stanley Baldwin, the future prime minister, who at that time was still President of the Board of Trade. He wrote

we must do what we can to keep Huths afloat and I beg you will take the necessary steps to see that the portion of Fritz König’s estate given to German beneficiaries is left for the firm’s use for the requisite term – five years if memory serves me.
He added that the “effect of a failure among the accepting houses at this time would be disastrous”. Fritz König was the deceased father of the two brothers who were the partners in Königs. The money in the firm was due to be distributed to the beneficiaries of their father’s will, but the BoE and the Board of Trade had conspired to use it to fund Huths instead.

There were considerable efforts to keep the agreement secret. Two days after the agreement was signed, the Public Trustee, O. R. A. Simpkin, wrote to Chapman “I am having the agreement kept secret and a note put on the general file to the effect that no steps whatever are to be taken in this matter without reference to myself or to Swain, head of my Enemy Property Department”. However, by the end of 1925, the Clearing Office dealing with enemy debts wanted the matter resolved, stating in a letter to Chapman “[n]ow that I have practically settled all the claims of the Accepting Houses, who have been treated as [sic] spoilt children, I think it would be as well that an enquiry should be directed to the Bank of England” about the Königs’ agreement.

The agreement had become far more than an inconvenient loose end. Inevitably, the foreign creditors resorted to legal action to recover their claims. In 1927, a writ was issued against the König brothers. Their solicitors, Slaughter & May, sought disclosure of the agreement. The BoE claimed disclosure of the agreement would be “very undesirable and injurious to public interests”. It continued to try to prevent the legal action into 1930. Finally, Norman was told by a Board of Trade official who had looked at the case in detail “that I can find no reason which would justify the Board of Trade in taking action with a view to stopping the case now before the Courts”. While Slaughter & May claimed F. A. König had brought £300,000 into the new Huths partnership, by the end of 1927 his brother, H. H. König, had transferred his entire fortune to a Guernsey-based company and resigned from the partnership. Matters were still unresolved by 1945.

Sayers explained that since 1841 it had been BoE practice to deal with any enquiry about a director’s firm—a firm that had a partner who was also a director of the BoE—“by ‘undoubted and unqualified’ reports and to discount their acceptances without limit”. Strictly speaking, Huths was no longer a director’s firm when it received extensive support from the BoE as Frederick Huth Jackson, who had been a director of the BoE, had died in 1921. However, other firms that had provided directors to
the BoE failed without receiving any support when needed. Mildred Goyeneche and Dent Palmer have already been mentioned, but there was also Samuel Dobrée & Sons, which failed in 1929. Special treatment for directors’ firms therefore seems an inadequate explanation. The BoE and government departments had been prepared to go to extraordinary lengths in some case, but special arrangements did not automatically extend to any City institution in difficulties.

**Conclusion**

Some of the merchant banks that survived the war had extensive American business, enabling them to see out the war with fewer financial worries, whereas those with exposures in Germany and Russia faced huge losses, and in general only managed to continue in business because of government-backed support. In some cases, however, there was an orderly closure over a long period such as in the case of W. Ladenburg & Co., while other firms were simply allowed to declare bankruptcy such as Mildred, Goyeneche & Co. Both of these firms had operated in the City since the late eighteenth century, so tradition or sentimentality seems to have counted for little in their treatment. These firms and others have long since been forgotten, but their demise is important to an understanding of the workings of the City in the interwar period.

Nevertheless, there were a few merchant banks that were involved in special arrangements. These exceptions need to be understood especially if it is claimed that they did not result from favourable treatment driven by the undue influence of the beneficiaries. The Securities Trust and the Königs/Huths amalgamation seem to have been engineered by the BoE and government departments; the merchant banks concerned seem to have played no part either in demanding such arrangements or in putting them into place.

Attempts to explain these special arrangements as resulting from privilege or undue influence simply fail to deal with the various situations that occurred. So, what is the explanation? The most plausible one is that the BoE was aiming to safeguard Britain’s reputation in international finance by creating a facade of creditworthiness for those merchant banks that it regarded as being too important to fail. Some of these merchant banks had international reputations that the BoE was attempting to safeguard by shoring-up their weak financial positions—perception masking reality.
If this explanation is to be accepted, however, it needs to accommodate the treatment by the BoE during this period of other financial institutions. Did the BoE try to control the domestic clearing banks and other emerging financial institutions to prevent them encroaching on the traditional preserves of the merchant banks especially those that the BoE was trying to support? To answer this question, the broader policy objectives of the BoE also need to be considered.

Notes


13. LMA, Ms.29295/1, AHC, Minutes of Meetings, 1914–1927. No minutes were kept between the inaugural meeting on 5 August 1914 and 27 January 1920. The minutes for 1925 are also missing.


15. *PP*, Postponement of Payments Act, 1914, and of the proclamations issued thereunder, dated 2 August, 6 August, 12 August, 1 September, and 3 September, Cmnd. 7633. Also see: Adam Willis Kirkaldy (ed.),
British Finance During and After the War, 1914–21 (London, 1921), pp. 1–8.

16. HPD (Commons), Vol. 68, cc1544–1545, 27 November 1914, Speech by Lloyd George during 3rd reading of the Government War Obligations Bill.

17. TNA, CO 323/870/83, Notification of decision to declare the termination of war as on 1 September 1921.


20. BoE, ADM34/11, Norman’s Diary, 29 July 1922. The entry states “Kleinworts Pay Off Today Balce of Cold Storage”.


22. TNA, T160/998, Letter from the Deputy Governor to the Treasury, 4 September 1922.

23. TNA, T160/998, Letter from Niemeyer to the Governor and Deputy Governor, 6 September 1922. The letter was typewritten, but the name Fred. Huth & Co. was handwritten, presumably to preserve confidentiality.

24. Norman noted in his diary “A. H. Goschen thanks of his firm for Cold Storage facilities”—see BoE, ADM34/11, 27 July 1922. This suggests that Goschens & Cunliffe also had advances on pre-moratorium bills outstanding when Harvey wrote to the Treasury in December 1921, but no mention was made of them.

25. The Times, 22 June 1923.

26. Benjamin Seymour Guinness (1868–1947) might have become the senior partner in Guinness Mahon. During the First World War, its London business became moribund. His older brothers retired from the firm and transferred the management to their cousin, Howard Rundell Guinness, on the understanding that Benjamin could assume their role within two years after the end of the war, if he wished to do so. The partnership was restructured in 1923, but he did not exercise his option. See: Ivy Frances Jones, The Rise of a Merchant Bank: A Short History of Guinness Mahon (Dublin, 1974), p. 38.

27. BoE, ADM34/9, 12 April 1920. The amount £500m means £500,000.


29. BoE, ADM34/10, 14 December 1921; ADM34/11, 6 February 1922.

30. BoE, ADM34/11, 14 February 1922.

31. TNA, T160/998, Advances on Pre-moratorium Bills—Arrangements after 31 August 1922, Letter from Discount Office to Treasury, 28 August 1926.
32. TNA, T160/998, Letter from Discount Office to Treasury, 12 September 1933.
33. TNA, T160/998, Letter from Discount Office to Treasury, 8 September 1939.
34. *The Times*, 22 June 1923.
35. TNA, T160/998, Letter from Discount Office to Niemeyer, 3 October 1922.
36. TNA, T160/998, Letter from Discount Office to the Treasury, 30 November 1925. The Governor’s letter of 21 November 1921 has not been found so the arrangements referred to are not known.
39. Hereafter, the following shortened names will be used. The old partnership of J.C. im Thurn & Sons will be referred to as Thurns, but the new limited company of J.C. Thurn and Sons Limited will referred to as Thurn Company. The same convention will be used for the firms of J. Horstman and of Arthur H. Brandt.
41. By 1927, Fransella had left the new firm. Norman recorded in his diary that the directors “had practically put him out for dealing privately with their Cont. Customers”. BoE, ADM34/16, 26 September 1927.
42. TNA, T160/998, Letter from C. Paget of Discount Office to S. Sydney-Turner at the Treasury, 28 January 1926.
43. TNA, T160/998, Letters from Discount Office to Treasury, 8 September 1930; 10 September 1931 and 14 September 1932.
44. TNA, T160/998, Letter from E. M Harvey to the Treasury, 20 December 1921.
46. Deichmann & Co. was established in 1858, but suspended payments in 1931 due to difficulties arising from the economic crisis. See: *The Times*, 25 September 1931.
48. Bruno Schröder married Emma Deichmann in 1894. Their eldest son was conscripted into the German army while on holiday with his cousins in Hanover in August 1914. He was missing in action in 1915. See: Richard Roberts, *Schroders: Merchants & Bankers* (Basingstoke, 1992), pp. 119, 156.
49. *HPD* (Commons), Vol. 87, cc965–967, 16 November 1916, Sir Henry Craik questions Pretyman, Parliamentary Secretary to the Board of Trade.


51. See: TNA, T160/998, Letters from the BoE to Treasury, 2 October 1928 and 7 October 1929.

52. TNA, T160/998, Letter from Harvey to Treasury, 23 July 1924.


55. *The Times*, 10 October 1924.

56. TNA, T160/998, Letter from the BoE to Treasury, 13 August 1927.


58. The fears of failure were captured by Patrick R. Chalmers in his novel *The Golden Bee*. The fictional merchant bank, Greatorex & Co., had existed for one hundred and thirty years, but, with bad debts in Argentina and insufficient capital to cover losses, it faced ruin. One of the partners, Philip Cochrane, contemplates his future “with a cold sinking of heart and a sudden fear, as an old and a poor man”. The comfortable life he had led was now threatened, but it would be “the half contemptuous sympathy of the City, the whispers in the clubs and Exchanges, these would be bad and bitter things to bear”. The novel was based on the author’s own experience as a partner until 1922 in Chalmers, Guthrie & Co. See: Patrick R. Chalmers, *The Golden Bee: A Novel* (London, 1932), pp. 9, 14–15. Also see: *The Times*, 18 September 1942.

59. Goodwill is the intangible value of a business. It is the difference between the total value of a business and the fair value of its net tangible assets.


61. *The Times*, 14 March 1921; 8 April 1921; 27 July 1921.


63. *The Times*, 16 April 1924. In October 1923, N. M. Rothschild and Sons brought an action against Dent, Palmer & Co. on behalf of the bondholders of the Ottoman 3½% Loan, 1894. Dent, Palmer & Co. was the agent for the loan, but, although it had received the interest for payment to the bondholders, it defaulted on the payment. See: *The Times*, 25 October 1923.


67. BoE, ADM34/9, 28 February 1920.

68. Roberts, *Schroders* (1992), p. 161. (Richard Roberts subsequently explained that he meant the firm did not replace the BoE loan with other borrowings, but retained part as working capital, which he presupposes was repaid at some point.)


72. TNA, T160/713, Formation of Securities Trust Limited for the disposal of investments acquired by H.M. Government during the war (1914–1918), Letter from Norman to Niemeyer, 18 May 1923 (underlining in the original).

73. The Securities Trust should not be confused with the Securities Management Trust, which was used by the BoE later in the period as part of its industrial reorganisation strategy.

74. TNA, T160/713, Letter from Niemeyer to Norman plus annexed list, 22 October 1923.

75. TNA, T160/713, Letter from Norman to Niemeyer, 26 November 1923.
76. TNA, T160/713, Letter from Niemeyer to Norman, 3 December 1923.
77. TNA, T160/998, Letter from Harvey to Treasury, 12 February 1924.
78. TNA, T160/713, Letter to Niemeyer from Harvey, 18 February 1924.
79. *HPD* (Commons), Vol. 189, cc500–2W, 9 December 1925. Leslie Hore-Belisha, 1893–1957, became Liberal MP for Plymouth Davenport in 1922. When the National Government was formed in 1931, he became a Liberal National. After the general election, he was appointed a junior minister at the Board of Trade. Later, he became Financial Secretary to the Treasury until the official Liberals withdrew from government in September 1932 over the issue of free trade.
80. Sir Frederic Wise, 1871–1928, was the Conservative MP for Ilford, Essex. He entered banking in 1903 and later founded the stockbroking company of Wise, Speke and Co. of Newcastle-on-Tyne. During the First World War, he worked with the National Service, the Food Ministry and the Treasury. In 1919, he was sent to Berlin to report on the financial position of Germany. He was also a financial advisor to the United Service Fund, a director of the Daily Express and of the Sudan Plantation Syndicate Ltd.
81. TNA, T160/713, Confidential note (marked “not to be filed”), 11 December 1925 (emphasis in original).
82. TNA, T160/998, Letter from Ramsey to Niemeyer, 9 November 1926.
83. TNA, T160/998, Handwritten note marked SECRET, 17 November 1926 (emphasis in original).
86. TNA, T160/713, Letter from Norman to Niemeyer, 12 February 1927.
87. Anglo-International Bank Limited was incorporated in September 1926, with a capital of £2.36 million. The BoE and Glyn, Mills were the largest shareholders. Herbert Alexander Lawrence, chairman of Glyn, Mills, was its first chairman. See: [http://heritagearchives.rbs.com](http://heritagearchives.rbs.com) (Accessed 1 September 2012).
88. TNA, T 160/713, handwritten confidential note (marked “not to be filed”), 2 March 1927 (emphasis in original).
89. TNA, T 160/713, Letter from Niemeyer to the Governor marked SECRET, 11 May 1927 (emphasis in original). Cox and Co. was a private bank established in 1758. It became the largest army agent.


91. BoE, ADM33/20, Sayers’ papers. Original source: Discount 112: A. Ruffer & Sons Ltd; CCP.138.8: Securities Trust Ltd.


93. TNA, T 160/713, Note, 2 March 1927.


98. BoE, Discount Office Files, Memorandum to the Governors marked *SECRET*—Frederick Huth & Co. *Liability of F. A. König*, 5 June 1945 (emphasis in original). The memorandum notes that Cordillera Investments Limited was still in the process of being wound up and the likely loss to the BoE would amount to about £500,000, which had been written-off.

99. TNA, BT 58/80/COS/9786, König Agreement, Handwritten letter from Baldwin to Chapman, 12 August 1922.

100. TNA, BT 58/80/COS/9786, Letter from Simpkin to Chapman marked *Personal [in red]*, 2 January 1923 (emphasis in original).


102. TNA, BT 58/80/COS/9786, Confidential Minute from Knight of the Clearing Office (Enemy Debts) to Payne, 14 December 1927.

103. TNA, BT 58/80/COS/9786, Letter from Knight of the Clearing Office (Enemy Debts) to Payne marked Confidential, 1 December 1928.

104. TNA, BT 58/80/COS/9786, Letter to Norman from Hamilton, 8 April 1930.


107. Bonamy Dobrée was Governor of the BoE in 1859. See: *The Times*, 8 November 1927 and 17 October 1929.
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**Newspapers**

*The London Gazette*

*The Times*
Reports from the economic conference of the Allied Powers in Paris in June 1916 claimed that punitive commercial policies against the Central Powers were demanded not only for the duration of war, but after the establishment of peace. These policies were meant in part to provide the Allied Powers protection against what was regarded as the expansionist economic policies of the enemy nations, especially the Germans. It was believed that Germany would “not only survive the re-establishment of peace but, at that very moment, will assume all its amplitude and all its intensity”. In face of such danger, it was felt that it was the duty of the Allied Governments to secure for themselves and the neutral countries full economic independence of the Allied Powers. This would in reality be achieved by continuing economic sanctions and restrictions, including reparations, well into the interwar period.

This policy helped limit banking competition after the war especially in Europe.Traditionally the international sphere had been the preserve of the merchant banks, although the joint-stock banks (hereafter referred to as the clearing banks—a more modern usage) were increasingly looking to expand beyond their domestic sphere. There were certainly opportunities to fill the banking vacuum left by the war, but many of the merchant banks were financially too weak to take full advantage. There was accordingly a number of new specialist banking ventures launched in the immediate post-war period mainly to support Britain’s export drive.

In this chapter, an attempt is made to reconcile what may seem to be inconsistencies in the policies adopted by the Bank of England (hereafter
BoE) at this time towards the merchant banks, the clearing banks and new banking ventures. It will be shown that the fate of the merchant banks was secondary to broader policy considerations. The secretive arrangements made by the BoE to support Fredk. Huth & Co. and the establishment of the Securities Trust in conjunction with the Treasury need to be accommodated within any explanation of the broader policy objectives of the BoE.

In order to correctly interpret the BoE’s motives in the 1920s, its behaviour towards the clearing banks needs to be properly understood. In particular, did the BoE try to control the activities of the clearing banks to safeguard the traditional preserves of the merchant banks? Any explanation also needs to accommodate the support, either direct or tacit, provided by official bodies, including the BoE, to the new overseas banking ventures.

CONTROLLING THE CLEARING BANKS

The tension between the traditional City, as represented by the BoE and the merchant banks, and the increasingly powerful clearing banks was plain to most observers before and during the war. John Maynard Keynes’ articles in 1914 showed his extreme antipathy towards the clearing banks. At the outbreak of war, he criticised them for restricting loans to the Stock Exchange, for calling in monies from the discount market, for hoarding gold, and for refusing to pay customers in gold when requested, forcing them to seek gold from the BoE instead. He described Felix Schuster, governor of the Union Bank, as cowardly, and Edward Holden, chairman of the Midland Bank, as selfish.2 His views were expressed from his position as an independent Treasury adviser, but also as someone deeply involved with the traditional financial establishment.

Tensions between the BoE and the clearing banks were noted by Benjamin Strong, the Governor of the Federal Reserve Bank of New York. In 1916, after discussions with Basil Blackett, a senior Treasury official, he recorded that Blackett thought that there were “many serious problems ahead in the matter of the London money market” and that “relations between the Bank of England and the London Joint Stock Banks would require thorough readjustment” as the banks “were getting too big for the Bank of England and their effort was rather to pull away
from the Bank’s influence”. Blackett added that Holden “was dead in London – exceedingly unpopular and obstructionist”.³

Strong was less than impressed with the strength of feelings expressed by Holden when they met in 1916. He records “Holden spent most of the evening after dinner in a rather violent and extreme criticism of the Government” and “Holden’s criticism of the Government, and particularly of Lord Cunliffe [Governor of the BoE] struck me as being exceedingly bad taste and in many respects undignified and unjustified”. In March 1916, Strong recorded in his diary that he had told J. P. Morgan that my inquiries have convinced me that the relations now existing between the Government on the one hand, the Bank of England and the Joint Stock Banks were such that I considered it highly inadvisable for us to attempt any arrangement with the Joint Stock Bankers or Discount Houses or any other until we had thoroughly investigated the situation with the Bank of England.⁴

This schism at the heart of the British financial system threatened Britain’s ability to gain support from the USA at a crucial time in the war. Up to and during the First World War there was a significant decline in the number of banks in Britain. By 1918, the “Big Five” clearing banks controlled about two-thirds of the market.⁵ Before the war, these amalgamations had been a means of strengthening the banking sector with the resultant scale as appropriate to accommodate the needs of large industrial and commercial firms.⁶ Such a concentration of financial power soon began to raise concerns at the BoE.⁷ A committee of enquiry was therefore established under Lord Colwyn. Its report, published in 1918, recommended that the approval of the Treasury and the Board of Trade should in future be required for any bank amalgamations. The report expressed concern about the dangers of reduced competition and of monopoly. It also expressed the view that the position of the BoE could “be seriously undermined by so overwhelming a combination [among the large banks], and the Bank might find it extremely difficult to carry out its very important duties as supporter and regulator of the Money Market”.⁸

Charles Addis, a member of the committee and later a director of the BoE, wrote with some prescience that another concern was that these large banks might become in effect guaranteed by the government as the insolvency of any one of them would create such widespread damage
that the government of the day would necessarily need to intervene. This was an early acknowledgement of the problem of having banks that were too big to fail. It also highlights an important fear that the failure of a large clearing bank would have enormous consequences for the domestic financial system. This fear provides an important clue to help understand the BoE’s policy in the 1920s.

The evidence to the Colwyn Committee shows the concerns that existed at this time about the impact of bank amalgamations on the money market and thereby the merchant banks’ role in acceptance finance. Important evidence was given to the committee by Christopher Nugent, the Manager of the Union Discount Company of London, one of the largest discount houses in the London money market. He explained that the “re-discounting facilities given to us by the amalgamated banks are larger than the re-discounting facilities which were given to us by the component banks. But the money the discount market prefers having – that is money regularly kept at call or notice – has gone down”. In other words, the discount houses could sell bills to the banks with greater ease, but the banks made less cash available in the money market for short-term borrowing. In his overall conclusion, he said: “I do not think that large [bank] amalgamations will seriously affect the discount houses”. He did, however, express concern that further bank amalgamations might “threaten or do away with the position hitherto held by the Bank of England” and that this situation would have a bad effect on the money markets.

After his initial statement, Nugent was cross-examined by Lord Cunliffe. His questions were mainly concerned with the impact of fewer accepting houses because of bank amalgamations. Cunliffe asked, if the number of accepting houses was greatly reduced, whether “the Continental market would also be reduced, because the Continental buyer would have so many on the same name”. Nugent thought the market would reduce as continental buyers “always have their limit and they would not take more than a certain amount of particular accepting houses”. The clearing banks were not the only buyers of bills as there were also buyers in continental Europe, their demand for bills would probably reduce if there were fewer firms guaranteeing bills. Nugent did acknowledge though that “the strength and position of the amalgamated banks doing the acceptance business would be taken into account by the Continental buyer”. He suggested that they might “be liberal in the amounts they would take on the large banks and therefore the
amalgamation process would have only a slight effect in that way, though it might have some”. He pointed out that the risk would be alleviated by the comfort of dealing with larger, better capitalised banks. The consequence of this shift would be less business for the remaining accepting houses. Nevertheless, Cunliffe wanted to highlight the dual role of the clearing banks as both buyers of bills and guarantors of bills. He continued as follows:

Cunliffe: Supposing the accepting houses were reduced very greatly in number to half-a-dozen or ten say – a good many of your Bills you sell to the banks themselves, do you not, or sell the acceptances of one bank to another,
Nugent: Yes
Cunliffe: —do you think one bank would take four or five times the line on one bank that it does at present.
Nugent: No, I think not, in a general way.

Cunliffe had demonstrated that a reduction in the number of accepting houses together with further bank amalgamations would result in the large clearing banks becoming the main buyers of acceptances as well as the principal guarantors of such bills. The incestuous nature of such an arrangement would give rise to huge risks that could destabilise the domestic financial system. Addressing this systemic risk would be a far greater concern to the BoE than safeguarding the merchant banks traditional role in the money markets as accepting houses.

In 1914, the merchant banks had extensive representation on the boards of only two clearing banks: the London, County and Westminster Bank (hereafter LCwB) and the London Joint Stock Bank. Neither Barclays, nor Lloyds had any merchant banks represented on their boards. This situation had not changed significantly by the 1920s. It is therefore surprising that the clearing bank that had taken the largest share of the acceptance and issuance business was the LCwB as it also had more merchant bankers on its board than any other. Nevertheless, Cain and Hopkins have argued that leading City firms were “the most powerful single influence, via interlocking directorships, on the other major financial institutions, such as the clearing banks”. If their assertion is correct, then it would suggest that those merchant bankers who were also clearing bank directors were using their influence to get such banks to compete against their own firms. This simply does not make sense.
No evidence has been found that shows the merchant banks tried to influence the clearing banks to reduce their involvement in the accepting business or persuade the BoE to do so. The only plausible explanation for the concerns expressed about the reduction in the number of accepting houses is that it would expose the money markets to increased systemic risk. This could be reduced by limiting the dual role of the clearing banks in the money market by maintaining specialist accepting houses. As we shall see, these specialist houses did not necessarily need to be the traditional merchant banks. The role of the clearing banks in international banking was also under scrutiny by the BoE.

In 1915, Cox & Co. had established an operation in France in conjunction with the clearing bank London & South Western Bank. After the war, Barclays Bank acquired this French operation. In early 1923, Lloyds Bank acquired Cox and Kings, an amalgamation of the old private banks of Cox & Co. and Henry S. King & Co. The combined firm had branches in London, India and Egypt. This acquisition had been carried out at the behest of the BoE. The rescue operation had the support of the Governor of the BoE as well as the Chancellor of the Exchequer. Cox and Kings were Army Agents and a similar but smaller firm had recently failed leading to public outrage. To avoid any repetition of public criticism, guarantees were given by the BoE and the Treasury amounting to £900,000. However, later in 1923, when Lloyds planned to add the London & Brazilian Bank to its existing holding of London & River Plate Bank to form the Bank of London and South America, often referred to later as BOLSA, the BoE was firmly opposed to it.

Similarly, when in 1925 Barclays Bank planned to form Barclays Bank (Dominion, Colonial and Overseas), known as Barclays DCO, by merging three overseas banks already under its control, the BoE used sanctions against Barclays in an attempt to prevent the merger. The BoE closed the accounts of the constituent banks of Barclays DCO and refused to open an account for the new combined bank. It further made it known that its acceptances were no longer eligible for discount or advances. Since the constituent banks of Barclays DCO were not new creations and also operated in markets not serviced by merchant banks, the BoE’s opposition would seem to have nothing to do with preserving business for the merchant banks. What therefore was the basis of its strong opposition from the BoE?

The most likely explanation is that such overseas expansion was also seen by the BoE as introducing systematic risk into the domestic banking
systems. This view was expressed by the Barings’ partner Gaspard Farrer in 1923 when he wrote

If misfortune arose to any of the big Banks in this country the Chancellor would have to intervene, and under circumstances it seems to me of real importance in the Treasury’s interest that a warning should be given against the extension of these Banks to foreign countries.\textsuperscript{20}

Similar concerns were expressed by the BoE’s Court of Directors in a letter to the Chancellor of the Exchequer on 8 October 1925 in which it stated that the clearing banks already have “sufficiently onerous liabilities at home, [so] will be wise not to assume in addition the risks and uncertainties inseparable from business in overseas markets”.\textsuperscript{21}

Norman tried to use his own connections to influence the decision-making within Barclays. He pleaded with Charles Frederick Wood, who was not only Chairman of the Colonial Bank and an advisory director to Barclays, but also a partner in the merchant bank Goschens & Cunliffe, to stop the amalgamation. Norman tried to use his influence with two other partners in the firm to enforce his will—William Henry Neville Goschen, also a director of National Provincial Bank, and Kenneth Huen Goschen, also a director of the BoE.\textsuperscript{22} However, his pleading was to no avail. Wood merely abstained from any vote on the matter. Extensive connections therefore did not necessarily result in powerful influence.

**Specialist Overseas Banking**

In the mid-nineteenth century, a number of British overseas banks were established. These banks had either their headquarters or their main branch in London, whereas their operations were located overseas. Although they had no domestic banking business, their ownership and control remained within Britain. The BoE did not try to limit the activities of these British overseas banks as it had done with the large domestic clearing banks. Although, perhaps more surprising, in the 1920s the BoE gave support either explicitly or tacitly to the establishment of specialist trade banks even though these banks would compete directly with the traditional merchant banks.

For instance, the BoE had no objections to the creation in 1919 of the British Overseas Bank (hereafter BOB). It was established by the
Prudential Assurance Company and eight British banks “to facilitate the foreign trade of the British Isles and the Empire by specialising in all matters of exchange, payments and receipts abroad, and the handling of foreign collections, documents and securities”. BOB’s authorised share capital was £5m. The eight banks that subscribed to the new venture included two private banks—Glyn Mills and Charles Hoare; three clearing banks—Northern Banking Company, Union Bank of Scotland and Williams Deacon’s Bank; and three British-based overseas banks—Anglo-South American Bank (hereafter ASAB), Dominion Bank of Toronto and the Imperial Ottoman Bank. The risks were spread and none of the large clearing banks was involved.

The BOB not only competed directly with the merchant banks but extended its influence in both overseas and home markets. It was involved in the formation of the Anglo-Polish Bank in 1920 and acquired the London and Liverpool Bank of Commerce in 1923. In 1924 Prudential Assurance, Williams Deacon’s Bank and the Union Bank of Scotland acquired the shareholdings of the other six original investors. The BOB acquired the foreign business of the long-established merchant bank, H. S. Lefevre & Co. in 1930 and the remaining banking business of Huths in 1936. It eventually met its demise in the 1930s due to bad debts in Europe.

The BoE itself also became involved in overseas banking through the Anglo-Austrian Bank. Both the Austrian Länderbank and the Anglo-Austrian Bank had significant acceptance business in London at the outbreak of war in 1914. Like the major German banks with branches in London at that time, the pre-moratorium acceptances of these banks were funded by the BoE. While good progress had been made before the end of the war in recovering the debts of the German banks, mainly by sale of their assets, the Austrian banks were more of a problem. In October 1922, the Austrian Länderbank and the Anglo-Austrian Bank still owed the BoE £1,789,483 and £2,248,895, respectively, amounting to 64% of the total outstanding on all pre-moratorium debts. In 1920–1921, the Austrian Länderbank was saved from closure by becoming a French-supported bank. Similarly, in 1922 the Anglo-Austrian Bank was registered as a British Bank at the insistence of Norman. It had capital of £1,406,370 of which a quarter was held by the BoE, which in addition held £700,000 in certificates of indebtedness convertible into shares.
The Anglo-Austrian Bank had a substantial branch network spread over six independent countries that were formerly part of the Austro-Hungarian Empire. The Czech branches were hived off to form the Anglo-Czechoslovakian Bank. Both banks were involved in the issues of reconstruction loans for Austria, Hungary and Czechoslovakia in London.\textsuperscript{31} The bank was not, however, a commercial success. In 1926, the Austrian branches were sold to the Austrian bank Creditanstalt, which was controlled by the Rothschilds. The BoE thereby indirectly became a shareholder in the early 1930s in the only remaining important Viennese bank; a bank that was to play a pivotal role in the later European banking crisis.\textsuperscript{32} In 1926, the Anglo-Austrian Bank was subsumed within the Anglo-International Bank—another BoE-controlled institution.\textsuperscript{33}

Even though the BoE attempted to prevent the large clearing banks from being involved in overseas activities, it was clearly itself deeply immersed in overseas banking. How is this inconsistency to be explained? The BoE had main two objectives, which were at times in conflict. Its primary objective was to safeguard the domestic financial system, and its secondary objective was to preserve Britain’s international financial standing which meant taking advantage of the opportunities arising out of post-war reconstruction in Europe. Since the traditional merchant banks had made little progress in seizing these post-war opportunities and many of them were too weak to do so, specialist British-based institutions were promoted instead. Some of these institutions arose from private sector initiatives and were very much in accordance with government plans to boost the flagging export trades. The roots of these policies are to be found in planning during the war when preparations were made to take economic advantage of victory over the Central Powers. However, the fact that such institutions competed directly with the merchant banks provides further evidence that safeguarding the preserves of the traditional City firms was not the BoE’s principal aim.

\textbf{Continuation of Hostilities}

Germany’s industrial and commercial success up to the First World War was grudgingly admired in Britain, but also greatly feared with good reason. In a Cabinet memorandum from 1917, the German and British systems were compared as follows: “the German system stands
for concentration, combination, co-ordination, and co-operation, dominated and controlled by the policy of the Government; the British stands for individualism and *laissez-faire*. The growth of the large German banks started in about 1890 with the “wholesale disappearance of the smaller banks”. Deutsche Bank opened its London Agency in March 1878. It was followed by Dresdner Bank in 1895 and Disconto-Gesellschaft in 1899. Although these three banks attempted to develop acceptances in German currency before the war, their main business in London was in sterling acceptances. They were among the most successful banks in this market. There were therefore good reasons to fear Germany’s resurgence after the war especially in international finance.

By July 1917, the war situation had changed especially as a result of the USA entering the conflict. There was growing concern that the Central Powers might struggle after the end of the war and that this outcome would not necessarily be a good one for the post-war international economy. While the anxiety of dealing with Germany as a resurgent economic powerhouse after the war might have been fading, there was a growing awareness of the economic vacuum that Germany’s defeat would create. An American writer on financial affairs commented that gaps occurred in Britain’s trade financing provision because of a failure to reintegrate former enemy banks into the London money market. However, developments were underway to fill these gaps.

During the war, plans were drawn up to ensure that Britain gained sustainable economic advantages over its enemies after the war. As early as 1916, a secret government committee chaired by Frederick Huth Jackson, a director of the BoE and senior partner of the merchant bank Huths, was established to examine relations after the war. The committee considered, among other matters, the extent, if any, to which foreigners especially Germans should be allowed to operate in Britain after the war in respect of finance, industry, commerce and shipping. The committee proposed a reform of banking and diplomatic facilities to improve trade. These findings prompted the Board of Trade and the Foreign Office to appoint a further committee to examine the financial facilities for trade, the Faringdon Committee. The objective of the committee was to consider “the needs of British firms after the War as regards financial facilities for trade, particularly with reference to the financing of large overseas contracts”. It urged preparations without delay as it was believed that “[o]ur enemies are sure to make at the earliest moment strenuous efforts to regain their position in the world
of commerce and finance”. The clear aim was to halt any resurgence of Germany as a commercial rival. The Faringdon Committee included two representatives from merchant banks, Huth Jackson and Gaspard Farrer of Barings, otherwise the committee was dominated by directors of the clearing banks, including the industrialist Dudley Docker, a director of Midland Bank; W. H. N. Goschen of the National Provincial Bank; Walter Leaf of the LCWB; James Hope Simpson of the Liverpool & Martins Bank; and Richard Vassar-Smith of Lloyds Bank.44

The main recommendation of the Faringdon Committee was the establishment of a British trade bank that “should endeavour not to interfere in any business for which existing Banks and Banking Houses now provide facilities”.45 The committee had rightly identified a lack of medium-term financing particularly for smaller enterprises that wanted to export their products. There were also blatantly imperialistic aims too. There would be no need to annex territories as they would instead become trade dependences. The objective was to displace enemy firms, especially German, from spheres of trading influence as clearly stated in a speech by Docker in June 1917 in which he referred to a trade bank enabling Britain to deal with its adversaries in other domains as the hostilities on the battlefield had ended.46

The proposal to create a “British Trade Bank” with a foreign exchange department and facilities to offer trade credit both at home and abroad was unpopular in some quarters of the City. For instance, Farrer of Barings refused to agree to the findings of his fellow committee members and did not sign the report. An editorial in The Times in May 1917 reported that the City believed that “money could always be found in the past for any projects that were worth taking up” and so it was “inclined to dismiss the scheme for a new Trade Bank by saying that it must either, through Government help, rob existing agencies of their proper opportunities, or else, by taking up worthless proposals that nobody else will touch, rapidly go into bankruptcy”, although The Times “did not think that a little extra stimulus in the right direction will do British Banks and British financiers any harm”.47

The proposal also came under severe attack in the House of Commons, being described as “a dangerous and mischievous innovation”; “an official bucket shop” and “one of the greatest insults to the British mercantile community”.48 Nevertheless, despite the strong opposition in some quarters, the company was established with support from the clearing banks with the modest concession that it would be known
as the British Trade Corporation (hereafter BTC), dropping the word “Bank” from its title. If the influence of the traditional City had been as strong as suggested by some historians, this initiative would not have happened. Instead, the strength of feeling merely resulted in the BTC getting no direct financial assistance from the Treasury.49

The BTC was meant to operate “while not interfering unduly with the ordinary business done by” British Banks.50 The idea was to stimulate the British export industry, but it soon became an instrument of British’s post-war foreign policy. Before the war, the absence of central banks in many countries provided an opportunity to increase British influence in some countries by the promotion of a new type of British-based overseas bank that was more akin to a British-controlled local “State Bank”. Two of the most important such banks were the National Bank of Egypt founded in 1898 and the National Bank of Turkey launched on a similar model in 1909. By early 1919, the BTC had purchased 96% of the National Bank of Turkey, providing continuity to the imperialist thread. It also acquired the Levant Company, which had been created to replace German influence in the Near East, and the merchant firm of Whittall, which traded predominantly in Greece and Turkey. The BTC was also used to compete with German interests in Portugal and Brazil. It invested in the Portuguese Trade Corporation and Anglo-Brazilian Commercial and Agency Company, but its boldest ventures were in South Russia where it became involved in the British intervention in the Russian Civil War. In 1919, with the assistance of three clearing banks—Lloyds Bank; National Provincial Bank; and London, County, Westminster & Parr’s Bank—it formed the South Russian Banking Agency to provide banking services to British interests in south Russia, but, after the Bolshevik victory in the civil war, it collapsed.51

Although BTC’s subsidiary, the Trade Indemnity Company, became by the mid-1920s a successful accepting house, by 1925 it was clear that the BTC was a failure. An American syndicate tried to acquire the BTC, but the BoE had other plans. Under its guidance, the BTC was merged in 1926 with another failed venture, the Anglo-Austrian Bank, to form the Anglo-International Bank, which, as mentioned earlier, became another BoE-controlled vehicle.52 R. P. T. Davenport-Hines suggests that the failure of the BTC was caused by hostility towards it by the City, claiming that the City tried to starve it of business.53 However, no evidence can be found to support this claim, especially in the diaries of Norman, who would have been expected to be at the heart of any such
efforts. It is far more likely that the BTC failed due to its quasi-imperialist objectives, which led it to take risks others would not contemplate. The final blow to the BTC’s creditability was the discovery on the eve of its merger of a fraud in its Yugoslav operation.54

Some historians have emphasised the role played by the Federation of British Industries (hereafter FBI) in lobbying for change in overseas banking.55 This can be contrasted with the lack of any such co-ordinated activity by the traditional City firms in particular through the Accepting Houses Committee.56 The FBI was involved in the formation of the British-Hungarian Bank, which failed as a result of currency speculation, and also attempted to create an Anglo-Chinese trading corporation, which was frustrated by the outbreak of civil war in China.57 The FBI was involved in another failed attempt at overseas banking—the British Italian Corporation (hereafter BIC)—but on this occasion so too were the large clearing banks and some merchant banks.58

Unlike the BTC, the BIC was not proposed by a government-appointed committee but originated with LCWB’s plans in 1915 to create an Italian operation. By 1916, two corporations had been formed: the BIC in Britain and Compagnia Italo-Britannica in Italy. BIC’s capital was £1m and was subscribed for privately by various British Banks, including the large clearers. Its directors included J. W. Beaumont, Deputy Chairman of Lloyds Bank; Arthur Hill, a director of LCWB; Henry Babington Smith, also Deputy Governor of the BTC; and the merchant banker Robert Benson.59 Although there was a general distrust of government-sponsored financial institutions, the concern about German influence in Italy led the Treasury to agree to a subsidy for the BIC of £50,000 a year for its first ten years.60

The BIC was brought close to failure by financial irregularities in its affiliate Banca Italo-Britannica in 1926, and by 1929 it needed £2.6m to survive. The BoE had to persuade the “Big Three” clearers that were still shareholders in BIC to fund the shortfall. The BoE also contributed £0.25m and agreed to discount any BIC acceptances in the London market.61 This bailout by the BoE and three of the large clearing banks highlights the increasingly desperate desire to maintain Britain’s standing in international finance. It is perhaps ironic that the BIC was eventually bought by the Bank of America National Trust & Savings Bank of California in 1931.62

As Britain moved off its war footing in the 1920s, there was a reduction in State intervention in the British economy.63
growing recognition that private enterprise needed to help finance reconstruction. In 1918, the Balfour of Burleigh Committee undertook a comprehensive planning review of the British economy, including an examination of its various sectors by specialist sub-committees. Although representations were made to the committee for the establishment of an Imperial Bank of Industry guaranteed by the State, it rejected this proposal. The committee acknowledged that, “while in certain directions existing banking institutions may with advantage be supplemented”, it felt that on the whole the existing banks had been prudently and efficiently conducted in private hands, and in our opinion the financial needs of British industry are likely in normal circumstances to receive better examination, and to be met in a more elastic and effective manner under private banking enterprise.

There was no shortage of new private banking enterprises. In addition to the BOB, the BTC and the BIC, there were a number of new banks created in the same period with the purpose of specialising predominantly in trade finance. The promotion of these ventures suggests an absence of such facilities, which had for so long been the primary operation of the merchant banks. Among these new banks were:

- The British and Foreign Mercantile Bank – registered in 1917;
- The Anglo-Baltic and Mediterranean Bank – registered in 1919;
- The Western Bank – registered in 1919;
- The Peninsular & Oriental Banking Corporation – registered in 1920;
- The British & North European Bank – registered in 1920; and
- Commercial Bank of the Near East – registered in 1922.

One of the earliest of these specialist banks was the Anglo-Russian Bank which was renamed the British Bank for Foreign Trade (hereafter BBFT). When the BBFT was nationalised by the Bolsheviks in 1920, its London business was acquired by the London & Eastern Trade Bank (hereafter LETB), which had been formed in 1920 by White Russians. BBFT had pre-moratorium acceptances outstanding that were funded by a special advance from the BoE, which, through the Securities Trust, took 27% of the share capital of LETB in settlement of the BBFT debt—another twist in the BoE’s complex post-war arrangements.
None of these new banking ventures succeeded. Ironically, the only new banking venture in this period to succeed was an amalgamation between the British Bank of Northern Commerce, which had been formed in 1912 by Scandinavian interests, and the old-established merchant bank, C. J. Hambro & Son, which had been based in London since 1839.68 Everard Hambro expressed his regrets about the merger to Edward Grenfell, who wrote to J. P. Morgan

Uncle Evy [Hambro] tells me he regrets very much to have done this and that the whole matter was settled rather quickly after consultation with Eric and Olaf. He professes to have been somewhat rushed in to the matter and to be quite unhappy. Figures have grown so large in the Joint Stock Banks that they fairly swamp the private house and it is natural that a private individual should not care to risk his whole fortune, however big, when somebody’s mistake may, in a moment, cost him a million pounds.69

Hambro with some sadness recognised that merchant banking was moving into a new era where the unlimited liability of the old partnerships was no longer a match for huge capital resources of the large clearing banks.

**State-Backed Facilities**

The merchant banks were facing increased competition from all quarters even from the State itself. In a response to concerns about the poor performance of Britain’s export trades, legislation was enacted to provide credits advances, export insurance and guarantees to domestic exporters. These facilities were given under the Overseas Trade (Credits and Insurance) Act of 1920 and the Trade Facilities Act of 1921.70 An Advisory Committee was established by the Government under the Act chaired by Robert Kindersley, who was not only a director of the BoE, but ironically also a partner in Lazards. The committee was empowered to guarantee loans up to a total £25m to undertakings promoting employment in the UK.71 By the end of 1922, total guarantees under the scheme amounted to over £22m, which was up from almost £15m on 31 March 1922.72

Cain and Hopkins have argued that after the war Britain’s attempts to increase its international influence were constrained not only by
competition from other powers, but by the poor supply of capital from the City. They have argued that the City were unable or unwilling to raise funds for risky overseas ventures without state backing. While there were government-sponsored initiatives, most new financial ventures were backed by private funds; for example, neither BOB nor the BTC had state backing. Cain and Hopkins have attempted to allow for these exceptions to their broad conclusion by suggesting that when the City was not prepared to act, “politicians would turn to new men whose willingness to take risks was tied to their ultimate ambition of becoming more closely integrated into elite circles”. Their argument suggests that the City was reluctant to support risky overseas ventures without government backing and those financiers that privately supported such ventures did so for non-commercial reasons, but the evidence does not support this view. The long-established and well-connected merchant banks were generally not in a sound state to participate in risky ventures during the 1920s. Also, the clearing banks were constrained from expanding overseas by the BoE. As has so often been the case in the City, the resultant gap was filled with new entrants with a view to profit rather than social status. There were numerous atypical individuals who rose to prominence in the City at this time to take advantage of these opportunities.

Conclusion

After the First World War, there was a drive to take advantage of the vacuum in banking services created by the defeat of Germany. Ordinarily such circumstances would have provided a major opportunity for the merchant banks, but in many cases, they were either too weak to undertake new business or unwilling to make the necessary commitments required. This resulted in new trade finance businesses being launched and attempts to restructure European banking.

In the light of much of the historiography that deals with the City in the early twentieth century, it would be reasonable to assume that the merchant banks would have used their influence and connections to improve their own situation either through support from the BoE or the Treasury, or by getting them to restrict further competition in businesses that were regarded as the traditional preserves of the merchant banks. The archival evidence shows a different situation. No evidence can be found of merchant banks exercising undue influence for their own benefit. Also, no clear evidence can be found of any attempt to restrict
competition to support the merchant banks. In particular, the BoE’s attempts to control the clearing banks were not aimed at preserving the merchant banks traditional preserves.

The large clearing banks were regarded as integral to the domestic financial system, so their activities needed to be controlled to avoid increasing systemic risk. Specialist financial institutions were therefore encouraged to undertake international activities. One of the strengths of the British banking system was that risks were spread across many specialist firms; the failure of individual firms should not have presented a serious threat to the overall system.

During the interwar period, the large clearing banks were too important to fail because of the systemic risk to the domestic financial system. Those merchant banks with international reputations were regarded as too important to fail for an entirely different reason. Firms such as Schroders and Huths could not be allowed to fail without significant reputational impact for the City as an international financial centre. The BoE’s policy decisions can only be properly understood in the context of its primary objective of safeguarding the domestic financial system. Britain’s standing in international finance was an important but secondary aim. While circumstances sometimes led to apparent inconsistencies in policy, the BoE generally adopted a consistent approach. It was not particularly concerned about the failure of small merchant banks, regardless of their heritage or past connections. Contrary to the arguments presented in the historiography, heritage and connections seem to have counted for little in the City. Decisions were not based on sentiment, but on hard commercial judgements.

Most of the failed ventures that have been mentioned involved the loss of private capital, rather than BoE or state funding. Nevertheless, there was no shortage of new entrants into the City; a few of whom succeeded, while most failed and have been forgotten. During the 1920s, the City was a tough environment with a high failure rate. By 1925 international finance had moved into a new phase. Most of Britain’s new banking and trade finance ventures had failed, presenting the surviving merchant banks an opportunity to re-establish themselves by the late 1920s. American investment was pouring into Germany, the troubled giant of the international economy. Britain’s response was to try to gain its share of the investment boom. Many of the surviving merchant banks in a fit of collective amnesia began to increase significantly their involvement with Germany. They would face further trials in the 1930s.
NOTES


5. The “Big Five” were created by mergers in 1918: London & Provincial with London & South Western Bank—the combined entity was then absorbed by Barclays Bank; Lloyds Bank with Capital & Counties Bank; National Provincial Bank with Union of London & Smiths Bank; London, County & Westminster Bank with Parr’s Bank; and London, City & Midland Bank with London Joint Stock Bank. See: Joseph Sykes, *The Amalgamation Movement in English Banking 1825–1924* (London, 1926), pp. 64–89.


10. TNA, T1/12267, Advisory Committee on Bank Amalgamations, Minutes of Evidence, Evidence of Christopher Nugent, 18 March 1918.


18. The three banks were: the Colonial Bank, which operated in the British West Indies and West Africa; the Anglo-Egyptian Bank, which was mainly
concerned with the cotton trade in Egypt; and the National Bank of South Africa.


22. BoE, ADM34/14, Norman’s Diaries, 5, 9, and 10 October 1925.


27. TNA, T160/998, Letter from the Discount Office to Niemeyer, 3 October 1922.


29. TNA, T160/173, Confidential memorandum about the Anglo-Austrian Bank, 23 September 1927. The Anglo-Austrian Bank’s chairman was Herbert Lawrence, the senior partner of Glyn, Mills, Currie. The board included Ernest Harvey, Michael Spencer Smith and Gordon Nairne of the BoE; Peter Bark, a former finance minister in Tsarist Russia; and Sir Henry Strakosch, a close associate of Rothschilds. Spencer Smith was also a partner in Lefevres.


34. TNA, CAB 24/21, Memorandum on Commercial Policy, 28 June 1917, p. 1.
35. TNA, CAB 24/21, p. 2.
38. TNA, CAB 24/22, p. 1.
40. *HPD* (Commons), Vol. 94, c.1171, Albert Stanley, President of the Board of Trade, 14 June 1917.
44. Faringdon Report, p. 3.
50. Faringdon Report, p. 5.
56. LMA, Ms.29295/1, AHC, Minutes, 1914–1927.
58. The shareholders included three merchant banks: Brown Shipley; Higginsons; M. Samuels. The largest shareholdings were likely to be held by the clearers. See: *The Times*, 31 January 1931.
59. *HPD* (Commons), Vol. 84, cc2078–2080, 31 July 1916, Speech by Reginald McKenna, Chancellor of the Exchequer.
60. *HPD* (Commons), Vol. 88, cc377–429, 29 November 1916.
64. *PP*, Final Report of the Committee on Commercial and Industrial Policy after the War, 1918, Cmnd. 9035 (hereafter Balfour of Burleigh Committee).
65. Balfour of Burleigh Committee, p. 41, s. 200.
66. Robinson, *Foreign Credit* (1923), p. 44.
70. Robinson, *Foreign Credit* (1923), pp. 41–42.
72. *The Times*, 5 May 1922; 20 February 1923.

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Before the outbreak of the First World War, Britain was the undisputed leader in the field of international trade finance. It was also the largest creditor nation, being owed an estimated 40% of the world’s debts. Britain’s attempt to retrieve some of its former standing in international finance was made against a background of inter-allied debts, reparation demands, monetary instability and increasing nationalism. These tensions culminated in the financial crisis of 1931, which precipitated a worldwide depression. Britain returned to the gold standard in 1925, but was forced off it in 1931, which severely damaged its standing in international finance.

The war had caused a dramatic shift in economic power between nations. The USA had moved from being the world’s largest debtor nation to its largest creditor, becoming Britain’s most potent rival in trade and finance. On the other hand, Germany had been a major competitor of Britain before the war, but by the early 1920s had become economically impotent as a result of hyperinflation and trade sanctions. However, as Germany’s economic potential was significant, it would not remain in a position of impotence for long.

The merchant banks had suffered increasing competition from the domestic clearing banks before the outbreak of war in 1914. Competition intensified further in the immediate post-war decade with the creation of new financial institutions at a time when many merchant banks were in a weakened state because of the disruption to their traditional business caused by the war. There would be no respite from
competitive threats with the rise of New York as London’s chief rival in international banking. The US dollar acceptance became a serious rival to the Bill on London, whereas the growth of acceptances in other European currencies was limited.

The historiography of Anglo-American rivalry is quite extensive. In respect of banking, Kathleen Burk has written about “Anglo-American amity and cooperation rather than conflict”.4 Roberta Dayer, on the other hand, has argued that Britain and the USA were in an “ongoing struggle for supremacy in Europe and Asia [that] produced and encouraged instability”.5 These diverse views indicate the complexity of Anglo-American relations at this time. In banking, there was both rivalry and interdependence between American and British banks. Some merchant banks developed sizable business in the USA, while for many there was a shift towards developing business in Europe, especially in Germany.

Although the easing of eligibility rules for US dollar acceptances had its origins in an attempt by the USA to finance Britain and her allies during the First World War, it will be shown that this relaxation introduced increased risk to markets. The fairly technical matter of the eligibility rules for discounting acceptances brought unsound practices into the international money markets as banks competed for business, setting the stage for an impending financial crisis that would take the world by storm in 1931.

SHIFTING BUSINESS PATTERNS

The merchant banks had always emphasised the advantage of local market knowledge. This knowledge in some cases had been built over a number of generations by specialising in certain commodities and countries, but it is questionable whether it continued to be a competitive advantage after the upheavals of the First World War. Traditional acceptance finance was increasingly being undermined by the development of reimbursement credits. Unlike traditional acceptances, such credits were given to foreign banks to enable them to provide acceptance finance to their own customers. A customer could draw bills under a line of credit provided to its local bank by an accepting house. This form of financing, however, broke the direct link between the accepting house and the ultimate borrower.

In his evidence to the Macmillan Committee in January 1930, Robert Kindersley, a partner in Lazards, stated
the joint stock banks confine themselves very largely as far as foreign business is concerned to reimbursement for foreign banks. I do not say that they exclusively do it, but I think the great majority of their acceptances are for that purpose, that is to say, reimbursement.6

He implied that the merchant banks were also offering this form of credit but to a lesser extent. After the war, the acceptance business of the banks of the Central Powers in London was lost mainly to the merchant banks, especially Kleinworts and Schroders. An important factor in the expansion of the business of Schroders after the war was the granting of reimbursement credits to German banks. From 1921, Deutsche Bank was Schroders’ largest German client.7 The archives of Schroders provide evidence of the extent of this business. By October 1931, Schroders had reimbursement credits of more than £450,000 with Darmstädter & Nationalbank, Deutsche Bank, Disconto-Gesellschaft, Dresdner Bank and Reichskredit Gesellschaft plus smaller amounts with twenty other German banks.8 It is unlikely that Schroders was exceptional in the provision of such facilities.

As the use of reimbursement credits became more extensive during the 1920s, the merchant banks could not rely on an intimate knowledge of the end-customer to judge credit risks. They also had little control over how credits were used. Ironically reimbursement credits were thought to be particularly safe as the foreign banks were supposed to scrutinise the creditworthiness of the end-customers.9 This method of financing, however, probably introduced more risk—not just the risk related to the foreign debtors, but also of those associated with the foreign banks now introduced into the credit chain. Also, commission for reimbursement credits was shared with the local banks, resulting in lower returns. Why was such business pursued so vigorously by the merchant banks? The main reason seems to have been the narrowing of opportunities elsewhere because of growing competition especially from the USA.

Schroders provided both acceptance finance and cash advances to its clients. Its acceptance financing and cash advances to German clients as a percentage of its total assets rose from just below 7% in 1920 to almost 35% in 1930. In the space of ten years to 1930, its exposure to German clients increased almost threefold.10 Another measure of Schroders’ shifting geographical focus is provided by the net debtor position in its
balance sheets at 31 December each year between 1925 and 1930. Its exposure to the Americas reduced from £4.246m in 1925 to £2.014m in 1928—almost halved, whereas its exposure to Europe, after an initial decline in 1926, went from £7.27m in 1927 to £11.57m in 1928—a 60% growth. The changing pattern is shown in Fig. 6.1.

The available data for Kleinworts covers a longer period of time. The pattern is even more pronounced. In 1912, 30% of its acceptance business came from the USA, but by 1930 this had been reduced to only 3% of the total. The areas of growth were initially Britain, increasing from 12% in 1912 to 34% in 1921, but reducing to 11% by 1930; and Germany and Austria, being 13% of the total in 1912, less than 1% in 1920, but rising to 38% in 1925 and dropping off to 30% by 1930.\textsuperscript{11} This shows the shift of acceptance business from the USA to Central Europe. The main reason for these changes is likely to have been the rise of the US dollar acceptance.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig6_1.png}
\caption{J. Henry Schroder & Co: net debtors by location, 1925–1930 \textit{(Source: The author’s chart based on data from Schroders Archives, Box SH-000149, JHS Financial Papers, JHS/BK/1/B)}}
\end{figure}
FOREIGN CURRENCY ACCEPTANCES

After the war, an entirely new threat emerged to the domination of the Bill on London; it was the foreign currency acceptance. German banks might have re-emerged as formidable rivals in the money markets, building on their considerable success before the war, but any remaining ambitions for a German currency acceptance market were destroyed by the rampant inflation of the early 1920s. This left the Netherlands and France as the only serious contenders in Europe. However, neither the Dutch guilder acceptance, nor the French franc acceptance became a serious rival to the sterling acceptance. The only serious foreign currency competitor would be the US dollar acceptance. Why did the dollar acceptance succeed, at least for a time, while the guilder and franc acceptances failed to achieve a broader usage?

The modern Dutch banking system had emerged in the 1860s. The Dutch guilder acceptance had been used before the First World War but only for Dutch trade. The development of Amsterdam as an international acceptance market occurred during and after the war. Dutch neutrality during the First World War brought international trade and its associated financial transactions to the Netherlands. In particular mutual economic dependency between the Netherlands and Germany was established and continued after the war. The stability of the guilder, particularly in comparison with other European currencies, helped to establish it as a medium for international transactions. The main handicap that limited the growth of the guilder acceptance before the First World War was the lack of short-term funds for investment. This situation changed after the war. Up to 1923 a considerable amount of short-term capital flowed from Germany and the old Austro-Hungarian Empire, leading to an expansion of the guilder acceptance market. German banks were establishing new operations in Amsterdam. For instance, in 1921 the German private bank Mendelssohn & Co. founded a local bank in Amsterdam, and both banks later participated with Kleinworts in new banking ventures in Austria and Hungary. After 1923, as Central European currencies began to stabilize, German and Austrian capital was repatriated from the Netherlands, being replaced by Italian, Belgian and French capital.

This dependence on foreign short-term capital did not help to create a solid foundation on which to build an international money market. But it was the strict supervision of acceptance business by the Dutch central bank that truly limited its growth. During the war and in the immediate
post-war period, acceptances were only eligible for discount at the Dutch central bank if prior approval of the acceptance credit had been obtained, which usually meant that Dutch commercial or shipping interests had to be involved in the underlying transaction. The Dutch central bank also exercised strict discrimination against finance bills and only approved genuine self-liquidating commercial bills. Unlike London, Amsterdam did not have a market for ineligible acceptances; the rules were strictly enforced. Although these restrictions limited the growth of Amsterdam as an international financial centre, they helped control the abuses that were to weaken other financial centres and their participants.

France’s lack of success in establishing an international French franc acceptance market was caused by different reasons. The main reason for its failure was a lack of liquidity in the French money market. In 1929, the Bank of France announced measures “to extend the traffic in international acceptances drawn in francs”. This was to be achieved by using various means to support the fledging market, including the removal of the prohibition on capital exports and the return of the franc to the gold standard. A special institution, the Banque Française d’Acceptation, was created with the support of the Bank of France “to facilitate the granting of credit in France and abroad to commerce and industry by means of acceptances”. The Bank of France also offered rediscount facilities, but, although there was some initial success, there was no real investment demand for French franc acceptances. The extensive and highly liquid market that existed for sterling acceptances in London simply did not exist for the French equivalent in Paris. Franc acceptances merely ended up in the portfolios of banks and there was little trading activity. To challenge the hegemony of the Bill on London required an acceptance market with a huge volume of freely traded bills. The danger was that to achieve this objective might mean a loosening of the strictures of prudent banking to gain market share.

To avoid the mistakes made by the French, the Americans needed not only to get financial institutions to guarantee bills of exchange to create acceptances, but also needed to ensure there was adequate demand for these short-term instruments from both borrowers and investors. US dollar acceptances needed to be attractive investments for both domestic and foreign holders of liquid funds. This demand was vital not only to avoid a moribund market, but also to ensure that the cost of borrowing using US dollar acceptance finance was competitive. Needless to say, it was also essential that any internationally traded acceptance was denominated in a stable currency. These factors would lead to a complex
interaction of local bill eligibility regulations and currency stabilisation policies in order to grab market share in international short-term financing. Britain’s return to the gold standard would be one of these factors. But the most pervasive influence would be the evolving eligibility rules governing the US dollar acceptance.

**Unsound Practices**

The need for an American central banking mechanism had been fiercely debated after the financial crisis of 1907. One of its staunchest proponents was German-born Paul Warburg, a partner in the American investment bank of Kuhn Loeb, and brother of the senior partner of the German merchant bank M. M. Warburg. Warburg felt that the modernisation of the American financial system could not be achieved by copying European methods. He believed that the USA needed a financial system “adapted to our own peculiar conditions”. He felt that such a modern system would enable the USA to “weather in safety and dignity the storms, from within and without, that may be in store for her”. His faith would be severely tested during the interwar period.

The Federal Reserve Act of 1913 enabled the creation of the US dollar acceptance by empowering American national banks to accept bills of exchange with no more than six-month’s duration, arising from the importation and exportation of goods, up to an amount of half of their paid-up capital and reserves. Acceptances for domestic transactions were not initially allowed. Eligible acceptances could be purchased (rediscounted) by reserve banks, providing a lender of last resort facility. This enabled the Federal Reserve to exercise better control over credit. The establishment of the US dollar acceptance market was greatly assisted by the disruption of war, which severely hit the sterling acceptance market.

The role undertaken by J. P. Morgan & Co. in facilitating the provision of funds to the Allies during the First World War has been extensively covered. However, Priscilla Roberts has shown that the efforts of the Federal Reserve Bank of New York, and especially Governor Benjamin Strong, to assist the Allies financially have been almost ignored by historians. She has argued that Strong helped formulate more relaxed Federal Reserve regulations to enable the Allies to be granted access to American credit to finance the war effort. Ironically, these policies would intensify competition between the British and American money markets in the 1920s and introduce greater risks through a loosening of prudent banking practice.
Before the USA entered the First World War, there were two main groups vying with each other to direct financial policy in support of their conflicting war aims. One group, clustered around J. P. Morgan with Strong as its champion, wanted to assist the Allies; the other group, centred on Kuhn Loeb with Warburg as its champion, sympathised with Germany. The battle lines were drawn along the fairly technical issue of the eligibility of acceptances for rediscount by Federal Reserve Banks. This issue was important as it provided a means of financing the Allies using the new financial instrument of the US dollar acceptance.

Strong’s correspondence during the war with Warburg and some British bankers shows that the London money market was being used as a benchmark to which the American market should aspire. A closer reading indicates that Strong was determined to remove some of the strictures imposed by the Federal Reserve Board using a selective comparison with the long-established and highly successful London money market. In 1915, Strong pointed out to Warburg that “there is misapprehension in your mind as to the character of dealings conducted by the Bank of England in bills that are current in the London market”. Strong wanted to persuade others that finance bills, those not directly involved in trade transactions, were perfectly acceptable in the London market. While assuring Warburg that he would find out more, he wrote “I have always maintained that a very large volume of bills of the London market are, in fact, in the form of finance bills and are regarded as the highest grade English paper”.

Warburg was determined to undertake his own research. In reply to a series of questions from Warburg, Felix Schuster, a director of the Union of London & Smiths Bank, wrote that in the London market there is a “preference to bills of a commercial character and to regard with disfavour anything that looks like a finance bill”. The attitude towards finance bills in London was not as straightforward as Strong was suggesting. Strong in turn sought positive comment from Edward Grenfell, a director of the Bank of England (hereafter BoE) and a partner in Morgan Grenfell, but Grenfell’s response was not entirely unambiguous. His reply dealt with the financing of American trade. He wrote that it “is very rare for the Bank to discriminate against Finance Bills, and it only does so when it considers the London Market is being made use of illegitimately”.

Under the original Federal Reserve Act, eligible acceptances were only those used for financing of the import and export of goods. Acceptances could also only be renewed after their initial ninety-day term had expired,
but their total duration was not to exceed six months. Strong and others argued for a facility of revolving credits, which could be renewed for consecutive periods. The effect of this proposal would be that acceptances collateralised against goods in a trade transaction would gradually evolve into unsecured loans renewable on a rolling basis. This approach was used to help the Allies finance war supplies through trade credits that were then converted into unsecured loans. It was a small step to issuing acceptance credits without any underlying trade in goods—finance bills.

By April 1915 revolving credits and finance bills had been recognised as eligible paper by the Federal Reserve. In the summer of 1915, the New York banking firm of Brown Brothers, which was closely associated with the merchant bank Brown Shipley, arranged a twelve-month revolving credit for a group of French banks. Controls were further loosened. In 1916, bills secured by warehouse receipts for readily marketable goods became eligible, and this was then extended in 1917 to unsold goods. Even after the war, these unsound practices were compounded by further relaxation of the eligibility rules. By 1921 consignments to foreign countries, even though unsold, were admitted, and then in 1927, acceptances for goods already delivered were allowed.

The impact of the relaxation of eligibility rules were significant as can be seen in Fig. 6.2. Between 1926 and 1929, there was an almost fourfold increase in the value of acceptances for purposes other than import and export. The largest growth was in acceptances for foreign storage and shipment. This category exceeded all others after 1929, reaching $548m out of total US dollar acceptances of $1520m by January 1931—36% of the total.

The demand for credit especially in Central Europe helped drive the growth of the US dollar acceptance, but the less stringent eligibility rules also made it a highly competitive instrument in the international money markets. A professor of banking at Columbia University, Benjamin H. Beckhart, examined the increase in dollar acceptances outstanding at each year end between 1916 and 1930. From 1916 to 1929, he noted that the market grew from $250m to $1723m—an increase of almost sevenfold.

In early 1931, a Senate Committee obtained the views of the main Federal Reserve Banks about this growth. Their comments strongly supported the view that this growth had been caused by a lack of capital in Central European countries, particularly Germany. The following reasons for the growth were given:
Boston: the inability of foreign shippers to obtain funds easily and on a favourable basis in European centers, and to some extent even to a nervousness regarding the stability of some of the European currencies.

Chicago: it appears that a substantial amount of this business originates in Germany and other central European countries and that it results at least to some extent from a continued shortage of capital.

Cleveland: a lack of capital and sufficient banking facilities in Central Europe to carry on imports of raw materials and export of finished goods without aid.

New York: [t]he greatest demand for it has come from Central Europe, which since the war has lacked capital.38

The cross-examination of Robert H. Bean, the secretary of the American Acceptance Council, at the Senate Committee hearings indicated, despite his evasive answers, that, even before the 1931 financial
crisis, it was recognised that instability had been introduced into international money markets. For example, when Bean was asked whether the constantly increasing volume of acceptances to Germany might be “likely to produce a very serious infringement on the liquidity of acceptances”, Bean grudgingly acknowledged that “such a situation would probably develop a degree of liquidity that would be unsatisfactory”. In view of what happened later in the year, this was a serious understatement of the risk involved. Writing in 1937, A. S. J. Baster remarked that “the relaxation of the American eligibility rules caused acceptance facilities to be extended to Germany before 1931 on a scale which would not have been reached under pre-war rules”.

Did the London market follow these loose practices? While direct evidence is hard to find, it is likely that London did so to some extent in order to retain business. According to the evidence of the Federal Reserve Bank of New York “much business of this sort that was formerly financed in London has come to America as the cost of

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**Fig. 6.3** Chart of the Differential between £ and $ Money Market Rates, 1917–1939 (Source: Author’s chart based on the following data sets from the National Bureau of Economic Research: m13016, Great Britain Open Market Rates of Discount, London 01/1824-11/1939 and m13007, U.S. Banker’s Acceptance Rates, New York City 08/1917-12/1965)
American finance decreased in comparison with the cost in London”, and in 1929 as interest rates in London rose “acceptance credits were permitted to run off in sterling and as they expired were replaced by dollar credits”.\(^{41}\) As Fig. 6.3 shows, for most of the period between 1925 and 1931, when Britain was on the gold standard, interest rates in London were higher than those in New York. London’s merchant banks would therefore have been at a competitive disadvantage. Were the money markets of London and New York in a race that would end in a financial catastrophe?

**Rivals and Partners**

While the BoE maintained high-interest rates to support the exchange rate and secure its gold reserves, it would have made the sterling acceptance market less attractive to borrowers. Another important factor in the competition for business was the rate of commission charged for accepting (guaranteeing) bills. Competition from the domestic clearing banks for acceptance business plus the provision of reimbursement credits to foreign banks on which commission was shared eroded commission rates. Was there a further reduction in commission rates in an attempt to retain business that might have otherwise been lost to the American market? The evidence suggests that such competitive pricing did occur.

In the USA, it was believed that the cutting of commission rates was limited to foreign credits in order to compete in these markets.\(^{43}\) In evidence to a Senate Committee in 1931, the Federal Reserve Bank of Boston expressed the view that acceptors had to reduce their rates from 1% pa to \(\frac{3}{4}\)\% pa or lower as London’s rates were believed to be \(\frac{3}{4}\)\% pa, including stamp taxes. In contrast, the evidence of Kindersley to the Macmillan Committee suggests that in New York the rate between big banks was \(\frac{1}{2}\)\%, but for the types of bill that his firm, Lazards, dealt in it was 1–2%. When pressed by Reginald McKenna, the former Chancellor of the Exchequer and, at that time, chairman of Midland Bank, Kindersley commented that two or three years before the war the question of rates had become “acute as between the acceptance houses and the banks”. He seemed to be attributing the reduction in rates to domestic competition. In response McKenna tried to shift the blame to American banks. He claimed that at that time the clearing banks were charging \(\frac{1}{2}\)\%, but some American banks
were sometimes charging nothing. Kindersley said that he had “never heard of it”. However, regardless of who was to blame, it was clear that commission rates were under pressure.

The US dollar acceptance had made significant inroads into markets that were traditionally dominated by the sterling acceptance. To appreciate the competitive pressures thereby created, it is worth remembering that the relaxation in American standards was taking place at a time when the Dutch central bank was strictly enforcing its high standards for eligible acceptance business, and the BoE was trying to introduce greater discipline into the sterling acceptance market, especially in respect of finance bills. The merchant banks by maintaining standards would most likely have lost business. It is therefore highly likely that the quality of the Bill on London was also compromised.

The situation was far from straightforward. New York and London were not simply rivals; there were also aspects of mutual support between these centres. For example, the demand for funds in the USA, particularly for stock market investment, was in part funded through the London money market as is shown in the following extract from a Cabinet memorandum from June 1929 prepared by the Board of Trade. It stated that “the demand in the United States for money, which was provided so largely by the banks, who [sic] were also the discount market, had had the effect of re-establishing to a large extent our acceptance business in London”. The revival of the London’s acceptance business was in part based on fuelling American stock market speculation.

There were close connections between some merchant banks and their associated American houses, such as Morgan Grenfell and Brown Shipley. In addition, a few of the merchant banks had direct investments in the growing American financial markets. For instance, Barings had an investment in the Massachusetts-based Kidder-Peabody Acceptance Corporation. Other merchant banks established their own American firms. For example, by 1917 Huths had established a firm, Huth & Co., in New York, and by 1923 Schroders had launched J. Henry Schroder Banking Corporation, which became known as Schrobanco. These firms would benefit from the growth in the US dollar acceptance market. In April 1928, the forty leading acceptance institutions in the USA accounted for 84% of the total volume of US dollar acceptances outstanding. Schrobanco, the Kidder-Peabody Acceptance Corporation and Huth & Co. were ranked eleventh, twelfth and twenty-third respectively in the league table of accepting institutions at this time.
One specialist acceptance institution, the International Acceptance Corporation, which ranked third in 1928, had been founded by Paul Warburg. In 1920, he had approached the partners of Schroders and Huths in London to propose that they join him, rather than establish competing organisations, but they chose not to do so. He therefore obtained capital for his new venture from the Rothschilds and the clearing bank National Provincial & Union Bank. This is further evidence of the complex network of arrangements that existed in the Anglo-American financial world. More evidence exists in securities issuance business.

Montagu Norman sought to make the League of Nation’s Financial Committee the arbiter of European financial reconstruction, and accordingly would not agree to London’s merchant banks issuing foreign loans unless the countries involved had obtained prior approval from the League for their financial reconstruction plans. There is plenty of evidence of such informal controls over foreign issues in Norman’s diaries. However, the City still attracted funds from around the world and had extensive links with the American investment banks, which had capital to invest but lacked knowledge of European conditions. By April 1924 the BoE had imposed a complete embargo on foreign lending, other than reconstruction loans under the League of Nations. These measures were taken to protect sterling, but, more tellingly, they were also introduced on the same day that the Dawes Plan was published. Britain now needed to ensure an early return to the gold standard in the hope of safeguarding its increasingly precarious position as international financial hegemon.

The League of Nations made an important contribution to Europe’s recovery by overseeing the stabilisation of currencies in Central Europe, starting with the Austrian schilling in 1923, then the Hungarian pengo in 1923–1924, and eight other European currencies in the next five years. In some countries external capital was used to finance development and structural transformation. These countries needed to export to create foreign exchange to be able to service their indebtedness, but external capital was often used unproductively to fund non-essential imports and social programmes. The cost of borrowing was high, and a significant amount of foreign capital was also in the form of short-term advances, which were frequently used for purposes better funded by long-term capital. By borrowing short and investing long, such countries were very exposed to any economic downturn that might result in a withdrawal of these advances. Germany presented an almost
intractable problem in terms of economic stabilisation. According to C. R. S. Harris, in a monograph written in 1935, the “orgy of currency inflation” had wiped out the German rentier class, leaving little domestic liquid capital. He believed that it was inflation, rather than reparations, that was the prime cause of Germany’s subsequent foreign indebtedness. During the inflationary period, Germany’s credit was too poor to enable her to borrow overseas.54

The Dawes Plan aimed to rehabilitate Germany in the international financial community.55 Germany’s reparation payments were restructured, and an agreement reached to evacuate French troops from the Ruhr area. Germany’s monetary system was also to be reformed with foreign supervision and, most importantly, foreign loan capital would be provided.56 During the Dawes negotiations, Norman argued that the new Germany currency should be linked to sterling rather than gold, which would effectively mean the US dollar. His failure to achieve his aim would result in Britain’s two greatest commercial rivals, the USA and Germany, having fixed currencies, putting Britain at a distinct disadvantage. Frank Costigliola has pointed out that in Dawes Committee negotiations “the Americans had stressed again and again the necessity of shaping the settlement to meet the requirements of the American investment market”; this was not an act of altruism.57

The USA were determined to make a success of the Dawes Plan. The Federal Reserve had reduced interest rates in 1924, which encouraged foreigners to borrow in the USA, and also made high-yielding bonds more attractive to American investors.58 The German External Loan of 800m gold marks was issued in October 1924. It was massively oversubscribed. The British issue of £12m German Government 7% Sterling Bonds was oversubscribed thirteen times. The Times described it as the “German loan rush”, publishing a picture of over a thousand people queuing outside the BoE in the hope of getting their subscriptions lodged. Similarly, in New York the American issue attracted subscriptions of well over a billion dollars for an issue of bonds with a nominal value of $110m.59 These issues re-established German credit and helped stabilize the Reichsmark. The flow of funds into Germany had commenced.

While it was not always possible to distinguish between short-term or long-term indebtedness, Fig. 6.4 attempts to show the growth of Germany’s indebtedness in the period based on contemporary published sources. After the Dawes issue, there was an initial decline in 1926 in overall borrowing ahead of torrential inflows in 1927 and 1928.
The main sources of the capital were the USA and Britain. There were indications that external capital was being used for speculation and public sector expenditure. In May 1927, after a decision to stop deferred settlement of Stock Exchange transactions, the Berlin stock market collapsed; it was referred to as “Black Friday”. The panic was short-lived with speculation resuming a few days later.60 This reaction indicates speculative fever. Public sector borrowing was also huge. The states and communes, municipalities and other public bodies contracted foreign loans at an alarming rate. These loans were often used to improve public amenities. By September 1927, the president of the Reichsbank, Hjalmar Schacht, warned that, while much of this expenditure might be desirable, foreign loans ought to have been used for industries in the export trades.61

The best contemporary estimates of Germany’s short-term indebtedness, including acceptance credits, at the end of July 1931 were produced by The Economist, and reproduced by C. R. S. Harris; these

Fig. 6.4 The growth of Germany’s foreign indebtedness, 1924–1930 (Source Author’s chart based on information in C. R. S. Harris, Germany’s Foreign Indebtedness (London, 1935), p. 7)
estimates are shown in Table 6.1. The total short-term indebtedness amounted to almost Rm12m, but this figure was after the withdrawal of some Rm3m shortly beforehand. The extent of the American and British involvement was considerable. The USA had 47% of the foreign acceptances outstanding in Germany against Britain’s share of 30%. In addition, the USA had 19% of other short-term debt and Britain had 13%. Holland and Switzerland also had some exposure, because of funds lent through Amsterdam and Zurich that originated elsewhere particularly in France, Italy, Czechoslovakia and the Scandinavian countries.62

Gerald D. Feldman pointed out that German banks had “often of necessity made long-term investments with short-term money”, but in the period from 1924 to 1929 the capital base on which these banks rested had been eroded by “the absence of that class of savers and investors ruined by inflation”.63 In these circumstances, these banks were highly vulnerable. Furthermore, Theo Balderston has noted that the stabilisation of the German currency in 1924 would have resulted in the free cross-border flow of short balances as a condition of participating in the gold standard, making the banks susceptible to liquidity crises.64 The German historian Christopher Kopper has argued that “the collapse of the German banks originated in the faulty transformation of short-term foreign deposits into defaulting long-term loans”, but he also has commented that the situation was “aggravated by the depletion of foreign currency reserves after a growing loss of foreign confidence in Germany’s economy and politics”.65

<table>
<thead>
<tr>
<th>Country of issue</th>
<th>Acceptance credits</th>
<th>Other short-term credits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>1405</td>
<td>1738</td>
<td>3143</td>
</tr>
<tr>
<td>Great Britain</td>
<td>886</td>
<td>1167</td>
<td>2053</td>
</tr>
<tr>
<td>Holland</td>
<td>263</td>
<td>1806</td>
<td>2069</td>
</tr>
<tr>
<td>Switzerland</td>
<td>236</td>
<td>1642</td>
<td>1878</td>
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<td>188</td>
<td>2638</td>
<td>2826</td>
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<tr>
<td></td>
<td>2978</td>
<td>8991</td>
<td>11,969</td>
</tr>
</tbody>
</table>

Source: Author’s table based on data from The Economist, 23 January 1932, cited by Harris, Germany’s Foreign Indebtedness (1935), p. 9
Conclusion

Anglo-American rivalry after the First World War was multi-faceted, involving political, economic and military tensions. However, there was both co-operation as well as rivalry. A number of the larger merchant banks had significant business interests in the USA. In some respects, some firms like Schroders and Barings benefitted from their American connections. Nevertheless, competition intensified as American financial institutions started to extend their reach initially in their domestic markets but later overseas. Many of the merchant banks, especially those with German roots, such as Schroders and Kleinworts, started to shift the focus of their business towards Germany. While competitive pressures were in part responsible for this shift, there was also a growing demand for finance in Germany often paying high-interest rates, but such high returns usually come with higher risks too.

The failure by Germany, France and the Netherlands, each for different reasons, to create a viable European currency acceptance to compete with the sterling “Bill on London” meant that the London money market went head-to-head with the fledging rival based in New York. The rise of the US dollar acceptance and the loosening of the Federal Bank policies, which were originally aimed at providing financial support to the Allied Powers in the war, continued after the war and had far-reaching consequences.

The US dollar acceptance made significant inroads into markets previously dominated by the sterling acceptance. For most of the period between 1925 and 1931, interest rates for sterling were higher than those for US dollars as the BoE tried to keep sterling on the gold standard. Competition became focused on commission rates to attract borrowers, but inevitably the weakening eligibility rules applicable to the US dollar acceptance must have been increasingly adopted in the London money market to win business.

Anglo-American rivalry intensified as the USA aimed to replace Britain as international financial hegemon. Unsound financial practices spread as American and British financial institutions competed to fulfil the voracious demands for capital in Central Europe, especially in Germany. These unsound practices would weaken the foundations of the international money markets and contribute significantly to the 1931 financial crisis. The systemic weaknesses were present—all that was required was a catalyst to trigger the collapse.
Notes

3. The gold standard set the external value of a currency to a fixed value in gold and thereby to a fixed rate of exchange with other currencies on the gold standard. These fixed rates operated independently of any rate that might arise by means of exchange.
6. TNA, T200/8, Minutes of evidence taken before the Committee on Finance and Industry, 1929–1931 (hereafter Macmillan Committee evidence), Q.1161.
8. SA, Box SH-000148, Doc 007, JHS Financial Papers, German Banks, Forms of Adherences, 1931.
10. Roberts, *Schroders* (1992), Fig. 7.3, p. 189; Appendix IV (i), p. 530.
18. The Times, 28 October 1921.
30. FRBNY, Strong Papers, File 211.2, Strong to Warburg, 4 October 1915.
31. FRBNY, Strong Papers, File 211.2, Strong to Warburg, 8 December 1915.
32. FRBNY, Strong Papers, File 211.2, Schuster to Warburg, 3 November 1915.
33. FRBNY, Strong Papers, File 1112.1, Grenfell to Strong, 22 December 1915.
42. Available at: http://www.nber.org/databases/macrohistory/contents/chapter13.html.
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*The London Gazette*

*The Times*
During the 1920s, the victorious allies of the First World War began to realise that Germany would need to be re-integrated into the global economy. Capital was required to achieve this aim in both Germany and elsewhere in Central Europe. The archival records show that a number of merchant banks were keen to seek out new business opportunities in Germany as well as in the successor states of the Austro-Hungarian Empire. The challenge was how to manage such reconstruction without destabilising the economies being rebuilt and without private capitalists taking undue risk in doing so.

There were plenty of warning signs given both in official reports and in private correspondence from senior bankers that the risks were high. Although some merchant banks such as Barings exercised caution, others, it will be shown, took huge risks and eventually paid the price. Did the merchant banks believe that they would be safeguarded from commercial failure as they had been in 1914? Was the Bank of England (hereafter BoE) aware of the risks being taken and what was its response when the crisis struck?

By the late 1920s, the US dollar acceptance had become a serious rival to the sterling Bill on London. In an attempt to deal with this foreign competition, some of the merchant banks almost certainly abandoned the traditionally prudent approach to lending and adopted the unsound practices that had been introduced through a loosening of eligibility rules for US dollar acceptances. By July 1931, many American and British Banks had significant exposures to Germany in the form of both...
acceptances and short-term loans. The Anglo-German merchant banks were particularly exposed to German banks as a result of their issue of reimbursement credits. How had this situation been allowed to happen?

In this chapter, by analysing the available financial data, it will be demonstrated that some houses had exposed themselves to unacceptable risks that crystallised in the financial crisis of 1931. Confidential documents in the Treasury records show that a scheme similar to the one in 1914 was being prepared, but it would not have a smooth passage on this occasion. As the crisis deepened, it will be shown that selective support was provided by the BoE.

It will be seen that the road to the 1931 financial crisis was full of financial excess and risk-taking; it seems that few lessons had been learnt from the 1914 financial crisis, which was certainly well within living memory.

**Warning Signs**

During the 1920s, views on the risks associated with Germany gradually changed. While there was a general desire to stabilise the German economy, the debate about who should pay for the war continued, and deep-rooted fears about the impact of a resurgent Germany remained. For instance, a secret memorandum prepared for the British Cabinet in 1921 by the Treasury described the “chaotic conditions” that prevailed, including unresolved questions about reparation liabilities and inter-allied indebtedness. The memorandum expressed concerns that “Germany threatens to collapse, financially, socially and politically, as a result of the efforts of a weak Government to fulfil an obligation which is probably in any case impossibly burdensome”. This situation might lead to “frantic efforts to produce and sell exportable goods [such that] Germany may destroy the export trade of her neighbours, and in particular that of the United Kingdom”. If a German collapse was to be avoided, it was proposed that Germany should be allowed “a breathing space”.1

The need to stabilise Germany and other European countries was widely recognised. In January 1920, an international memorial was published by leading financiers. It called for international co-operation to provide capital to various European countries “to restore their productivity, and to reorganise their currencies”. The view was expressed that “while much can be done through normal banking channels, the working capital needed is too large in amount and is required too quickly
for such channels to be adequate”, so countries would need to provide the finance required without any restrictive controls by governments of “national and international free trade”.\textsuperscript{2} The signatories to the memorial included Robert H. Brand and Robert Kindersley of Lazards and Edward Grenfell of Morgan Grenfell, but it was unsuccessful. According to Roberta Dayer, its failure was caused by a lack of backing from the House of Morgan. It might have been viewed by Morgans as an initiative formulated by its rival Lazards.\textsuperscript{3} It would take almost five years before an alternative plan was accepted.

The City, with the encouragement of the BoE, was, however, determined to seek out new business opportunities with Germany as is indicated in the following extracts from Norman’s diary.

\textit{29 July 1920}: Agreed with FHJ [Frederick Huth Jackson] that no reason now exists why Huths here & similar firms shd not open Credits for or do business with German firms in S. America: But all such London firms shd agree to act on similar lines in respects of their prewar correspondent\textsuperscript{s} in S.A.\textit{ 7 July 1921}: Gairdner [Arthur CD Gairdner, Chairman of the British Overseas Bank] – I approve no renewal Credits – but business for Germany is good in principle\textit{ 22 December 1921}: CD Seligmann [\textit{sic}] [Partner in Seligman Brothers] – I shd welcome Bills drawn on them by & from Germany for bona fide commercial ship\textsuperscript{s}.\textsuperscript{4}

These three firms were among those severely impacted by the 1931 financial crisis, but other firms also became heavily involved with Germany. In 1921 in a personal letter to Basil Blackett, Brand stated that a number of City institutions had given assistance to Germany in order for it to meet its reparation payments. He explained that the assistance was for a short period only but acknowledged that it was important to the City to know how much of Germany’s reparation payments were to be made in foreign currency, rather than by payments in kind, to assess its ability to repay loans.\textsuperscript{5} Brand recognised that lending to Germany was risky. He acknowledged that any insistence on large indemnities from Germany could have a detrimental effect on the interests of Britain as such payments could only be funded by German exports, which would be in direct competition with British goods. He believed that improvements in international trade, rather than reparations, was the best way that to enable Britain to repay its own debts.\textsuperscript{6}
There were also demands for capital for reconstruction elsewhere in Europe. As early as 1919, the Czech government had tried to encourage British Banks to invest in Eastern Europe to help oust German capital. Brand was enthusiastic, but other bankers were less so. Plans to use the Trade Facilities Act in 1921 to guarantee loans to Poland and Yugoslavia also came to nothing. By 1922, Rothschilds was trying to raise support from Barings for an issue for Yugoslavia, but Barings’ attention was directed towards Czechoslovakia. In April 1922, Barings led a syndicate that included Rothschilds and Schroders, which issued the Czechoslovak State Loan of 1922, amounting to £2.8m in Britain. Loans were also issued in New York and Amsterdam led by the Barings’ associates Kidder Peabody and Hope & Co., respectively. By the following summer, the League of Nations had stabilised Austrian finances, which enabled foreign governments to guarantee a loan issue for Austria. In June 1923, the BoE arranged the issue of £14m sterling bonds of the Austrian Government Guaranteed Loan 1923–1943. The League’s second plan of reconstruction in Hungary paved the way for the issue of a Hungarian loan the following summer. The British issue was for £7.9m of sterling bonds. The refinancing of Central and Eastern Europe was underway.

It is perhaps therefore surprising that in January 1923 the Department of Overseas Trade issued confidential reports about the situation in Czechoslovakia, reporting that the “Moravo-Silesian Bank has recently failed, and a number of other banks are reported to be in difficulties”. It also reported that the recent Czech loan stood at a considerable discount to its issue price with underwriters still holding a good deal of the issue. The current yield on the loan was nearly 9½% interest, which reflected that rates the market expected from new Czech loans. The report stated further “borrowing abroad at the present time could therefore take place only on very onerous terms”. While financing European reconstruction might have seemed a sensible strategy, it was not without its risks. These risks were recognised by Charles Whigham of Morgan Grenfell. In a letter dated January 1923 to his American colleague, Dwight W. Morrow of J. P. Morgan, he wrote “I also have the feeling that until many of the cardboard houses that we are all living in have collapsed we won’t really make any progress in convalescing from the results of the War”.

The historian Allen Thomas Bonnell, in a book published in 1940, described Germany in the early 1920s as “rich in disillusionment, poor in capital”, which was a fair assessment of its situation.
he expressed his surprise the significant revival in confidence in the German’s economy, which he felt was unwarranted. After the Dawes plan was implemented, this revaluation of Germany’s prospects led to substantial capital flows into Germany attracted by high rates of interest.\textsuperscript{14} C. R. S. Harris writing in 1935 also questioned why financial opinion all over the world was satisfied by the security offered under the Dawes plan by German borrowers. Germany’s reparation liabilities stood at £6.6 billion. How was Germany going acquire an export surplus to pay this amount, especially in an increasingly protectionist world?\textsuperscript{15} Later historians have also questioned the rationale behind the surge of investment in Germany in the mid-1920s. Theo Balderston has argued that the bankruptcy statistics in Germany from about mid-1927 showed increasing delays in the settlement of trade debts and an increasing number of businesses suffering from a lack of cash.\textsuperscript{16} Similarly, Christopher Kopper has argued that the German financial crisis of 1931 can be traced to domestic loan defaults and poor risk management by domestic banks.\textsuperscript{17} These comments were, of course, made with the value of hindsight, but there were contemporary concerns expressed too.

In the general rush to provide Germany with financing, Barings was notable in its growing caution. In 1928 in a confidential internal memorandum, it was noted that Lord Revelstoke had “informed Mr Rothschild that we viewed with increasing misgiving the number of small German municipal and industrial issues which had recently been floated in the London market or were at present under consideration”. Barings’ view was that the syndicate with Rothschilds and Schroders should only deal in important issues.\textsuperscript{18} Similarly in 1930, when Kidder Peabody asked by telegram for a “better understanding [of] how friends at Number 8 feel about Corporation continuing German credits present amounts moderate”, Barings replied “London friends carefully scrutinizing any fresh German proposals and endeavouring [to] prevent total German commitments from increasing otherwise continuing business as before”.\textsuperscript{19} In September 1930, in a copy of a letter from the representative of an American financial institution in Berlin forwarded to Edward Reid, a director of Barings, it was noted that the German election results “by far exceeds all expectations [with] the landslide in favour of the so-called National Socialistic [sic] Party”. The correspondent concluded that “I do not believe that this is a proper time to increase our German commitments, but I do not see any reason that we should be afraid for those commitments we have outstanding at present”.\textsuperscript{20} The election
was one indicator of trouble to come, but there was also the unfinished business of German reparations.

The seemingly intractable problem of reparations was considered by another committee of experts established in 1929 under the chairmanship of Owen D. Young, the head of General Electric and a member of the earlier Dawes committee. The Young committee proposed a plan that reduced the total amount of reparations to 121 billion gold marks payable over fifty-eight years. Another German loan would be floated in foreign markets to raise $300m. Foreign supervision of German finances would cease and the last of the occupying troops would leave German soil.\(^\text{21}\) The Young Plan also called for the establishment of a Bank for International Settlements, designed to facilitate the payment of reparations.\(^\text{22}\) The so-called Young loan was issued on 12 June 1930 as the German Government International 5½% Loan. The British issue was for £12m sterling bonds. While the issue was oversubscribed, only 5% was payable on application with a further 25% due on 2 July 1930. This investment was therefore a leveraged bet on Germany. It did not repeat the success of the Dawes loan; instead it went to a discount against the issue price within days.\(^\text{23}\) The muted response to the proposed Young loan, even before the Wall Street crash, is a further indication of underlying investor nervousness.

There were therefore numerous warning signs of an impending crisis, but as always is the case in such situation those involved try to continue until just before the music stops. However, most participants get their timing wrong or may even be oblivious to the warning signs until it is too late. A number of the merchant banks took huge risks and paid the price.

**Risk Appetite**

In order to demonstrate the risks being taken by the merchant banks before the financial crisis of July 1931, data has been obtained from the BoE’s archives that show their exposure to commercial failures from 1927 to mid-1931. Table 7.1 shows the failures recorded by the BoE with a potential loss of greater than £100,000. The actual losses are not known as subsequent recoveries may have been made.

The recorded number of large failures increased each year, becoming quite significant by 1931. The number of merchant banks involved in each failure varied considerably. The largest recorded failure was
Table 7.1 Commercial failures >£100,000 recorded by the Bank of England, 1927–1931

<table>
<thead>
<tr>
<th>Date</th>
<th>Commercial failure</th>
<th>Location</th>
<th>Loss (£’000s)</th>
<th>Merchant Banks involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 27</td>
<td>Osterreith &amp; Co.</td>
<td>Antwerp, Belgium</td>
<td>150</td>
<td>3</td>
</tr>
<tr>
<td>1928</td>
<td>Jacob Neurath</td>
<td>Vienna, Austria</td>
<td>199</td>
<td>8</td>
</tr>
<tr>
<td>December 28</td>
<td>Rogers Pyatt Shellac Company</td>
<td>New York, USA</td>
<td>355</td>
<td>3</td>
</tr>
<tr>
<td>April 29</td>
<td>S.I.C.M.A.T.</td>
<td>Trieste, Italy</td>
<td>674</td>
<td>16</td>
</tr>
<tr>
<td>October 29</td>
<td>Crown Butter Export Co. Ltd</td>
<td>Copenhagen, Denmark</td>
<td>239</td>
<td>8</td>
</tr>
<tr>
<td>1930</td>
<td>A. H. Faber</td>
<td>Zurich, Switzerland</td>
<td>293</td>
<td>4</td>
</tr>
<tr>
<td>1930</td>
<td>E. Ashworth &amp; Co.</td>
<td>UK [?]</td>
<td>184</td>
<td>8</td>
</tr>
<tr>
<td>1930</td>
<td>David Benjamin</td>
<td>Hamburg, Germany</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>1930</td>
<td>Cia Mechanca &amp; Importa</td>
<td>San Paulo, Brazil</td>
<td>224</td>
<td>5</td>
</tr>
<tr>
<td>1931</td>
<td>Fur &amp; Wool Trading Co. Ltd</td>
<td>Leipzig, Germany</td>
<td>182</td>
<td>4</td>
</tr>
<tr>
<td>1931</td>
<td>Bank Handlowy</td>
<td>Warsaw, Poland</td>
<td>245</td>
<td>6</td>
</tr>
<tr>
<td>1931</td>
<td>Schlubach Thiemer</td>
<td>Hamburg, Germany</td>
<td>200</td>
<td>2</td>
</tr>
<tr>
<td>1931</td>
<td>Nordwolle</td>
<td>Bremen, Germany</td>
<td>1588</td>
<td>10</td>
</tr>
<tr>
<td>1931</td>
<td>Schroders</td>
<td>Bremen, Germany</td>
<td>156</td>
<td>3</td>
</tr>
<tr>
<td>1931</td>
<td>Lorthiois Freres</td>
<td>Roubaix, France</td>
<td>167</td>
<td>3</td>
</tr>
<tr>
<td>1931</td>
<td>G. Scheel &amp; Co.</td>
<td>Estonia</td>
<td>376</td>
<td>5</td>
</tr>
</tbody>
</table>

Source Author’s table based on information extracted from BoE, Discount Office (Banking Supervision) File, C48/243, Discount Office Intelligence Function: Failures, 1921–1931

SICMAT in Italy with a combined exposure of £674,000 across sixteen merchant banks.24 SICMAT was a cotton manufacturer that failed owing about $20m to fifty-six banks of which twenty-six were British and seven American.25

The losses suffered by some of the banks were not insignificant. In respect of these large failures alone, Table 7.2 shows that Kleinworts and Wm. Brandt’s Sons were exposed to losses of about £3¾m, while Schroders, Lazards and M. Samuels to potential losses of over £½m. Merchant banks that had struggled in the early 1920s, receiving support from the BoE, such as Huths, Goschens & Cunliffe and the London Merchant Bank (hereafter LMB) faced losses around three to four hundred thousand pounds. In contrast, some substantial firms, such as Barings, Rothschilds and Morgan Grenfell, had much smaller exposures.
Table 7.2 The exposure of Merchant Bank to large commercial failures, 1927–1931

<table>
<thead>
<tr>
<th>Merchant Bank</th>
<th>Estimated loss (£’000s)</th>
<th>Number of failures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kleinworts</td>
<td>756</td>
<td>8</td>
</tr>
<tr>
<td>Wm Brandts Sons &amp; Co.</td>
<td>742</td>
<td>6</td>
</tr>
<tr>
<td>J. Henry Schroder</td>
<td>642</td>
<td>6</td>
</tr>
<tr>
<td>M. Samuel &amp; Co.</td>
<td>515</td>
<td>6</td>
</tr>
<tr>
<td>Lazard Brothers</td>
<td>503</td>
<td>6</td>
</tr>
<tr>
<td>Fredk Huth &amp; Co.</td>
<td>434</td>
<td>4</td>
</tr>
<tr>
<td>Goschen &amp; Cunliffe</td>
<td>316</td>
<td>6</td>
</tr>
<tr>
<td>London Merchant Bank</td>
<td>272</td>
<td>4</td>
</tr>
<tr>
<td>Hambros Bank</td>
<td>152</td>
<td>4</td>
</tr>
<tr>
<td>Baring Bros</td>
<td>146</td>
<td>5</td>
</tr>
<tr>
<td>Japhet</td>
<td>138</td>
<td>4</td>
</tr>
<tr>
<td>Seligman Brothers</td>
<td>126</td>
<td>4</td>
</tr>
<tr>
<td>Arbuthnot Latham</td>
<td>119</td>
<td>4</td>
</tr>
<tr>
<td>Erlangers &amp; Co.</td>
<td>75</td>
<td>4</td>
</tr>
<tr>
<td>Rothschild &amp; Sons</td>
<td>75</td>
<td>4</td>
</tr>
<tr>
<td>A. Ruffer &amp; Sons Ltd</td>
<td>73</td>
<td>4</td>
</tr>
<tr>
<td>Samuel Montagu &amp; Co.</td>
<td>59</td>
<td>3</td>
</tr>
<tr>
<td>Guinness Mahon</td>
<td>52</td>
<td>2</td>
</tr>
<tr>
<td>H. S. Lefevre &amp; Co.</td>
<td>49</td>
<td>3</td>
</tr>
<tr>
<td>Morgan Grenfell</td>
<td>34</td>
<td>2</td>
</tr>
<tr>
<td>Grace Brothers</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>J. C. Im Thurn</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>Brown Shipley</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Singer &amp; Friedlander</td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>

5332

Source: Author’s table based on information extracted from BoE, Discount Office (Banking Supervision) File, C48/243, Discount Office Intelligence Function: Failures, 1921–1931

It could be argued that these three firms were more involved in issuing rather accepting business, but alternatively they may have reduced their exposures by careful management. Eight of the commercial failures noted by the BoE involved five or more merchant banks, and not all of these were particularly large exposures. This broader involvement suggests that some commercial firms obtained acceptance credits from a number of competing merchant banks. Did the merchant banks therefore act together to reduce their credit risks?

During the proceedings of the Macmillan Committee, Kindersley was asked about the sharing of credit information among members of the Accepting Houses Committee (hereafter AHC). He believed that
“each acceptance house must depend on its own skill and its own connections”. He explained the difficulty of sharing information because of client confidentiality but acknowledged that there “had [been] many cases where certain merchants have got too much credit in London”. He proposed firms relied on “dealing with an honest person, by asking for disclosure as to what are the other credits they have in London”.26 The available records show that this naive approach did not work. A proposed Register of Credits had been discussed by the AHC in July 1929. Olaf Hambro was “certainly in favour of something being done to avoid the recurrence of incidents such as that of which so many London Accepting Houses have had experience lately”.27 However, after a review by a sub-committee, the proposal was later rejected even though it “obtained considerable support, the necessary unanimity was not forthcoming”.28 Hambro’s reference to the “recurrence of incidents” suggests that commercial failures were widespread. However, despite these warnings of heightened credit risks, some merchant banks continued regardless. One way to identify those firms that took excessive risks is to analyse the available financial statements.

In 1930, in his evidence to the Macmillan Committee, Kindersley explained the measures traditionally used by the merchant banks to judge the limit to their acceptance exposure. He said that “the sort of unwritten rule is that an acceptance house does not accept more than three to four times the value of its capital and reserve”.29 Outstanding acceptances are shown on a bank’s balance sheet as both a liability and an asset. Having accepted a bill, the bank has guaranteed its payment, but expects to receive the amount owing before the due date. The liability is therefore only a contingent liability, becoming an actual liability only if funds are not received before the due date. Applying the “unwritten rule” to the available balance sheets, Table 7.3 highlights those times when firms exceeded a year-end ratio of four. There are only a few instances where firms breached this limit. Schroders ran above or close to the limit during 1928 to 1930, while Barings exceeded it in 1928. However, M. Samuels was well in excess of the accepted ratio, reaching a ratio of almost seven in 1930.

Since acceptances were usually for three months duration, the average remaining duration would have been about six weeks. Therefore, if a merchant bank was faced with actual, rather than contingent, liabilities on its outstanding acceptances, the question would have been whether it had sufficient cash or readily realisable assets to meet these liabilities. This measure is more appropriate than the one using a firm’s capital base.
Table 7.3  Ratio of acceptance outstanding to capital and reserves, 1927–1931

<table>
<thead>
<tr>
<th></th>
<th>1927</th>
<th>1928</th>
<th>1929</th>
<th>1930</th>
<th>1931</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. Samuel &amp; Co.</td>
<td>6.1</td>
<td>6.9</td>
<td>4.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J. Henry Schroder &amp; Co.</td>
<td>3.5</td>
<td>4.4</td>
<td>4.0</td>
<td>3.6</td>
<td>2.7</td>
</tr>
<tr>
<td>S. Japhet &amp; Co. Ltd</td>
<td>3.9</td>
<td>3.9</td>
<td>3.5</td>
<td>3.2</td>
<td>2.7</td>
</tr>
<tr>
<td>London Merchant Bank</td>
<td>2.9</td>
<td>3.9</td>
<td>3.8</td>
<td>3.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Lazard Bros</td>
<td></td>
<td>3.8</td>
<td></td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Baring Bros &amp; Co. Ltd</td>
<td>3.7</td>
<td>4.5</td>
<td>3.3</td>
<td>1.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Erlangers Ltd</td>
<td>2.1</td>
<td>2.2</td>
<td>1.9</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Hambros Bank Ltd</td>
<td>0.9</td>
<td>1.6</td>
<td>1.8</td>
<td>1.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Grace Bros &amp; Co. Ltd</td>
<td>0.9</td>
<td>1.1</td>
<td>1.4</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Morgan Grenfell</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Ratio > 4


Table 7.4  Ratio of liquid assets to acceptances outstanding, 1927–1931

<table>
<thead>
<tr>
<th></th>
<th>1927</th>
<th>1928</th>
<th>1929</th>
<th>1930</th>
<th>1931</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Merchant Bank</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>J. Henry Schroder &amp; Co.</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>S. Japhet &amp; Co. Ltd</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Erlangers Ltd</td>
<td>0.6</td>
<td>0.6</td>
<td>0.8</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Grace Bros &amp; Co. Ltd</td>
<td>0.9</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Hambros Bank Ltd</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Baring Bros &amp; Co. Ltd</td>
<td>2.6</td>
<td>2.0</td>
<td>2.4</td>
<td>2.4</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Ratio ≤ 0.5

Source Author’s table based on information in Truptil, *British Banks* (1936), pp. App.III.

Table 7.4 shows the ratio of liquid assets to acceptances outstanding for those banks for which balance sheets were available. Where this ratio is low, it means that there would have been a shortage of cash if acceptances had to be met immediately from the bank’s own resources. Those banks with ratios highlighted would have struggled in a crisis. Schroders and Japhets had coverage for only about half of their potential acceptances liabilities, while the LMB usually operated with even less cover. In contrast, Hambros and particularly Barings had ample coverage.
A further indication of the level of risk exposure can be provided by determining whether a profit was made after accounting for bad debts. This analysis has been done by comparing the total exposure to all commercial failures as recorded by the BoE, to acceptance commission earned for those merchant banks where such information is available.

Although it is difficult to know precisely the acceptance commission rate that was charged, judging by earlier findings, it was unlikely to be more than 0.75% pa. Therefore, ratios of potential loss exposure to acceptances outstanding of greater than 0.50% pa would indicate that a loss was being made on acceptance business as bad debt write-offs would absorb most of the commission income even before any operating expenses had been considered.

Table 7.5 shows that between 1928 and 1931 half of the merchant banks for which data are available were probably incurring losses on their acceptance business because of bad debts. In 1928–1929, the LMB and Schroders’ New York-based associate, Schrobanco, had bad debt exposures of about 1% pa of their acceptances outstanding. By 1931 Kleinworts, Lazards and M Samuels had high ratios, but these were well exceeded by those of the LMB and Schroders of 5.16% and 2.59%.

Table 7.5  Bad debt exposure to acceptances outstanding (% pa), 1928–1931

<table>
<thead>
<tr>
<th>Merchant Bank</th>
<th>Total loss exposure £000s</th>
<th>% of total (%)</th>
<th>1928–1929 (%)</th>
<th>1930 (%)</th>
<th>1931 (%)</th>
<th>Average for 1928–1931</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kleinworts</td>
<td>893</td>
<td>13.68</td>
<td>0.17</td>
<td>0.23</td>
<td>1.86</td>
<td>0.75</td>
</tr>
<tr>
<td>J. Henry</td>
<td>699</td>
<td>10.71</td>
<td>0.27</td>
<td>0.18</td>
<td>2.59</td>
<td>1.01</td>
</tr>
<tr>
<td>Schroder</td>
<td>575</td>
<td>8.81</td>
<td>0.20</td>
<td></td>
<td>1.35</td>
<td>0.78</td>
</tr>
<tr>
<td>Lazard Brothers</td>
<td>564</td>
<td>8.64</td>
<td>0.20</td>
<td></td>
<td>0.93</td>
<td>0.93</td>
</tr>
<tr>
<td>M. Samuel &amp; Co. London</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchant Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hambros Bank</td>
<td>353</td>
<td>5.41</td>
<td>0.90</td>
<td>0.54</td>
<td>5.16</td>
<td>2.20</td>
</tr>
<tr>
<td>Schrobanco, New York</td>
<td>206</td>
<td>3.16</td>
<td>0.40</td>
<td>0.03</td>
<td>0.02</td>
<td>0.15</td>
</tr>
<tr>
<td>Baring Bros</td>
<td>190</td>
<td>2.91</td>
<td>0.90</td>
<td>0.00</td>
<td>0.00</td>
<td>0.30</td>
</tr>
<tr>
<td>Japhet</td>
<td>163</td>
<td>2.50</td>
<td>0.55</td>
<td>0.32</td>
<td>0.00</td>
<td>0.29</td>
</tr>
<tr>
<td>Erlangers &amp; Co.</td>
<td>179</td>
<td>2.74</td>
<td>0.33</td>
<td>0.11</td>
<td>0.66</td>
<td>0.36</td>
</tr>
<tr>
<td>Grace Brothers</td>
<td>54</td>
<td>0.83</td>
<td>0.51</td>
<td>0.00</td>
<td>0.67</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Source: Author’s analysis based on merchant banks’ exposure to commercial failures based on information in the BoE, Discount Office (Banking Supervision) Files, C48/243, Intelligence Function: Failures’, 1921–31 (Figures for year-end acceptances obtained from: Jehanne Wake, Kleinwort, Benson: A History of Two Families in Banking (Oxford, 1997), p. 476; R. J. Truptil, British Banks and the London Money Market (London, 1936), Appendix III; and Richard Roberts, Schroders: Merchants & Bankers (Basingstoke, 1992), p. 530 [It has been assumed that outstanding acceptances have an average duration of four months])
respectively. Unless a bank had other business activities that contributed significantly to profits, it is hard to see how such potential losses could have been easily absorbed. It is clear evidence that acceptance business was undertaken by some merchant banks at very narrow margins, which resulted in losses as bad debts mounted.

Although individual banks could absorb losses against the firm’s capital base, an absence of liquid assets to meet liabilities would effectively render a firm insolvent. Some merchant banks had also become increasingly “bank-like” in their conduct of business, relying not just on their own capital to back their acceptances, but also on deposits. If there was a crisis of confidence, not only might acceptance liabilities crystallise, but also depositors might want to withdraw their funds. These two factors would have led to a severe squeeze on the bank’s cash and liquid assets. The year-end deposits of some of the merchant banks against 1928 as a base year are shown in Table 7.6. By 1931, Schroders, Japhets and Erlangers had suffered serious withdrawals with deposits reduced to approximately 30–40% of those in 1928. However, the LMB recorded the most severe outflows with deposits in 1931 at 13% of their 1928 level. This financial analysis has demonstrated that some merchant banks had operated with a high degree of risk. The only alternative explanation was that these firms had been mismanaged. The consequences of such risk exposure would be very apparent when the financial crisis of July 1931 struck.

### 1931 Financial Crisis

The root cause of the 1931 financial crisis has been debated extensively. It has been suggested that the Wall Street crash in October 1929 prompted the repatriation of American short-term foreign loans to meet ...
domestic requirements, thereby disturbing the international financial system that was dependent on continued support from the USA. It has even been postulated that the failure of Clarence Hatry’s financial empire in Britain in September 1929 was the event that damaged the fragile confidence of markets and triggered the Wall Street crash. The Times, on the other hand, at the time described the failure in Germany in the summer of 1929 of the Frankfurter General Insurance Company, known as Favag, as “the stone which set the avalanche of economic depression in movement”. Others have cited the collapse of the Austrian Creditanstalt in May 1931 as the decisive blow to confidence, spreading financial panic from Austria to Hungary and then to Germany. Germany had suffered financial crises in the spring of 1929 and again in September 1930. Both crises were successfully managed by the Reichsbank. In the first instance, it obtained support from other central banks, and in the second an American consortium led by the Boston-based bank Lee Higginson helped raise a loan. Regardless of the cause of the 1931 financial crisis, there can be little doubt that financial markets at this time were unstable and had probably been so for a number of years. It was an accident waiting to happen, and a number of the merchant banks were not in good shape to deal with the fallout.

On 10 June 1931, Eric and Charles Hambro asked Norman whether they should withdraw credits from Germany. Norman recorded his response in his diary as, “I say Germany is a good bet in the long run & needs help & comfort rather than worrying”. This advice was given a month before a major German bank, Darmstädter und Nationalbank, known as the Danatbank, suspended payments. It had suffered heavy withdrawals of funds, including short-term credits from foreign banks. It was probably the collapse of Nordwolle, a Bremen-based wool company, which precipitated the failure of Danatbank. The German government guaranteed all its debts in an attempt to avoid financial contagion. However, as Harold James has argued, unlike the earlier crises, the German banking crisis of 1931 impacted the real economy as interest rates were raised, and German banks reduced their loans to maintain liquidity as deposits were withdrawn. The spring and early summer of 1931 saw a massive wave of capital flight, and that year Germany had a net outflow of $540m. In July 1931, its external reserves exhausted, the German government suspended international payments.
By mid-July, the British clearing banks and accepting houses had formed a joint committee to find solutions to the City’s exposure to Germany. It met on 15, 16 and even on Saturday 18 July. The bankers’ committee clearly did not share the Governor’s optimism on the situation in Germany. It proposed a scheme similar to the arrangements made in 1914, involving government-backed support. According to R. S. Sayers, Norman “effectively stymied the proposal”. Sayers noted that, although the total of London acceptance credits was £54m, the “Governor had assumed it to be larger but, not contemplating any rescue operation, he did not demand disclosure of figures”. This situation was extraordinary. While the bankers’ committee was proposing a rescue plan, Norman held his ground even though he was apparently unaware of the extent of the City’s exposure and did not want further information to help him assess the situation. Sayers’ sympathetic portrayal of Norman during the crisis is not shared by others. In Edward Bennett’s study of the crisis, he has been quite pointed about Norman, describing him as irresponsible as he promised too much and delivering very little.

On 15 July, George Harrison, the governor of the Federal Reserve Bank of New York, having succeeded Strong after his death, cabled Norman expressing the concern of American bankers at “the sudden drop in sterling exchange to-day”, and asked “[c]an you throw any light on this?”, but Norman was unable to do so. The BoE’s reserves had fallen to a level at which the sterling rate could be supported for a few days only. According to Norman’s official biographer, Henry Clay, the BoE sought a Government guarantee, but the Chancellor of the Exchequer was unwilling to help. Support was instead received from the Federal Reserve Bank and the Bank of France. By 24 July, there could have been little doubt as to the seriousness of the situation. At a meeting with the chairman of the Westminster Bank, Rupert Beckett, and its chief general manager, Charles Lidbury, Norman was made aware that Kleinworts had asked its bankers for help with the firm’s exposure of over £12m to Germany, including over £8m in acceptance credits. The Governor said that, if necessary, he might “perhaps urge legislation”. Since the Treasury had been reviewing the 1914 arrangements and had been formulating a Bills of Exchange Act as early as 3 July 1931, it is not entirely clear whether Norman was aware of these plans. The Treasury’s archival records show that it was in contact with the BoE about the growing crisis during the summer of 1931. Drafts
of the proposed Bills of Exchange Act were shared with the BoE. A draft speech to be given in the House of Commons, presumably by the Chancellor, had been prepared. It started “[s]ince the crisis developed in Germany I have been in close consultation with the Bank of England as to the possible repercussions on this country”. The draft speech drew parallels with the situation in 1914 but was careful to emphasise that “there is no ground for public alarm; there is urgent need for this insurance against public risk”.47

The pressure was mounting on Norman. After a meeting on 27 July with senior clearing bank directors, he recorded in his diary that there was a danger of “suspension of gold payments”. The following day he left the BoE at 3 p.m., noting in his diary only one word—“Queer”.48 He did not return until 24 September, by which time Britain had been forced off the gold standard. In his biography of Norman, Andrew Boyle summed up the situation. He has written that Norman took to his bed “in a state of acute mental and nervous prostration”, staying there until eventually his doctor ordered him to take a holiday abroad. Norman left his colleagues “to save what little could be saved from the impending shipwreck”.49 It is not clear whether Norman tried to ride out the storm with a show of confidence that finally crumbled as the crisis deepened or whether he was caught unaware of the extent of the problems. The latter is the most likely explanation as the market supervision exercised by the BoE was inadequate so it probable that the situation was misjudged.

The lack of regulatory control is evident from the exchanges between John Maynard Keynes and the Deputy Governor, Ernest Harvey, during the Macmillan Committee hearings, seven months before the outbreak of the crisis. Keynes asked whether the BoE had statistics about the volume of acceptance outstanding and whether it should make the provision of such information a condition of a firm being treated as a first-class accepting house. Harvey vacillated, stating that “acceptors do keep the Bank furnished with very full information regarding their positions and we do claim the right to see their balance sheets”. Keynes continued: “would it not be useful if they let the Bank know, from week to week, the aggregate amount of acceptances outstanding?” Harvey reply demonstrated the inadequacy of the BoE’s supervision; he said that while “I think it might be useful, if it could be done without hurting the susceptibilities of acceptors”.50 This admission was astonishing and was tantamount to admitting that the BoE did not properly supervise the accepting houses.
Further indirect evidence of a lack of close control of the money markets by the BoE can be obtained by an examination of its weekly returns, which were essentially the Bank’s own balance sheet split between the Issue Department and the Banking Department. An official explanation of the BoE’s involvement in the London money markets was rarely, if indeed ever, provided. After the amalgamation of the Treasury note issue in November 1928, the BoE became the sole currency note issuer in England.\textsuperscript{51} This necessitated a change in the BoE’s return with respect to the Issue Department, but it was also taken as an opportunity to provide more information in the Banking Department section too.\textsuperscript{52} The assets held in the Banking Department were analysed into Government Securities, Other Securities, Notes and Coins. There was also a further breakdown of Other Securities into Discounts & Advances and Securities.\textsuperscript{53} An explanation of these categories was provided by Harvey to the Macmillan Committee. A key point to understand is that the same type of security can appear in more than one category as its classification depends on who initiates the transaction. For example, the category Government Securities includes Treasury Bills bought by the BoE where it has initiated the transaction, whereas Treasury Bills brought to the BoE for discount by a customer would appear under Discounts & Advances.\textsuperscript{54} This distinction is important in obtaining an understanding of the BoE’s activities in the money market. In the Banking Department section of the return, the total of Government Securities plus Other Securities is the cost of securities bought at the BoE’s initiation. Some of these will have been obtained through the BoE’s own open market operations, whereby it provides or withdraws liquidity from the market by buying or selling securities. In contrast, Discounts & Advances are bills discounted at a customer’s request or loans provided against collateral.

Figure 7.1 shows the movement in these categories during 1931. Market participants used facilities at the BoE in the weeks beginning 1 April and 1 July as shown by the spikes in the chart. It is likely that the April increase was caused either by 31 March window dressing of balance sheets or by activities related to the end of the fiscal year. The sharp increase in the week beginning 1 July was undoubtedly owing to the money market discounting bills with the BoE or drawing advances. In contrast, the BoE did not initiate any increase in liquidity in the market by buying acceptances as shown by the relatively constant holdings in Other Securities. The BoE increased its holdings of Government
Securities by open market operations from the end of July when the crisis was already in full swing. This time lag of four weeks between the reaction to the crisis by market participants and by the BoE indicates a lack of awareness of market conditions at the BoE.

There was also a good leading indicator of money market stress that would have been readily available to the BoE without having to request specific information from market participants. In its role as lender of last resort, the BoE offered a facility to rediscount (buy) bills. Under normal circumstances, the BoE’s discount rate would be higher than the open market rate. A narrowing of the differential between these two rates would therefore indicate a degree of stress in the money markets. Figure 7.2 shows the BoE’s discount rate against the open market rate. The BoE raised its rate between January and March 1929 by 1% and again August and October 1929 by 0.98%. From October 1929 to May 1930, the Bank Rate was reduced by 3.48% and was held steady for almost a year at 3%. Between August and October 1931, the Bank
Rate increased by 2.5% to 6% in an attempt to defend sterling. However, the differential between the BoE’s discount rate and the open market rate narrowed steadily from a high in March 1930 to a low point in December 1931. This trend shows that the money market was under growing stress for over a year before the crisis hit in early July 1931. However, there is no evidence that the BoE took heed of these warnings to increase its scrutiny of market participants.

In the light of this evidence, Sayers’ conclusion that at the start of the crisis in July 1931 officials at the BoE believed that “London’s lenders to Germany had been more prudent than others” seems extraordinary. If the BoE’s officials had truly come to this conclusion, it must have been based on wishful thinking rather than thorough analysis. Sayers also wrote that this view was held by “later commentators” but he does not make it clear who he was referring to.\(^5^5\)

International negotiations, in which the Bank of International Settlements played an influential role, culminated in the signing on 19 August 1931 of the first Standstill agreement with Germany. The basis of

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**Fig. 7.2** Differential between Bank of England Discount Rate and the Open Market Rate, 1928–1932 (Source Author’s chart based on data sets from the National Bureau of Economic Research: m13016, Great Britain Open Market Rates of Discount, London 01/1824-11/1939, and m130013, Great Britain Minimum Rate of Discount, Bank of England 01/1836-12/1939)
the agreement was that there would be no mass withdrawal of deposits or credit facilities for a period of six months from 1 September 1931. This bound Britain, the USA, France and seven other countries. This amounted to exchange controls with the effect of freezing outstanding debts. Similar arrangements were introduced for other indebted countries. Thereafter each year saw further agreements to deal with the remaining debts. The outbreak of war in September 1939 stopped the Standstill arrangements, leaving some £34m still outstanding. The last Standstill debt was repaid in October 1961.

**The Aftermath**

Richard Roberts described the financial crisis of 1931 as “a fundamental turning point for London as a financial centre and for merchant banks”. He further expressed the view that it was “the greatest calamity in Schröders’ history” that affected the firm for more than two decades. Jehanne Wake similarly has stated that Kleinworts faced insolvency in 1931 with defaulting debtors owing the firm £12m, which was nearly four times the partners’ capital. Both Schroders and Kleinworts sought help from their bankers, the Westminster Bank, but it is far from clear whether official support was also provided.

In a monograph published in 1950, the economist Thomas Balogh claimed that the BoE together with the joint-stock banks set up a fund to provide financial support. Evidence from the archives of the Treasury shows that a scheme similar to the one adopted in 1914 continued to be considered into late 1931 and perhaps even into early 1932, and the BoE were closely involved in these discussions. In a confidential memorandum dated 20 October 1931, it was disclosed that “a scheme should be prepared to provide for advances to certain acceptors to enable them to meet their Bills at maturity (‘cold storage’). The guarantee of H.M. Government will be necessary”. Two days later, in a handwritten note, it is pointed out that there would be a number of issues to resolve, including “how to separate the sheep from the goats? Can we back it wholly & the Bank to exclude bad names?” Was such an arrangement put in place, whereby some houses were supported and other left to fail?

Detailed notes were taken of a meeting on 20 October 1931 between A.C. Ball of the BoE’s discount office and two senior Treasury officials, Frederick Leith-Ross and Frederick Phillips, to discuss the scheme’s operation. It was noted that “very similar conditions now apply to South
American bills”, which had become frozen because of local exchange controls. It was estimated that these amounted to £20m to £25m and were mainly bills for nitrate business. The houses exposed “include merchant banks like the London Merchant Bank and the London Eastern Trade Bank. The Acceptances Houses include Messrs. Rothschild, Schroeder [sic], Kleinwort, Baring, Higginson, etc.” Concern was expressed that default by these acceptors might result in further withdrawals of foreign balances from British Banks.\textsuperscript{62} The Treasury representatives pointed out the “obvious political difficulty of asking Parliament to guarantee the solvency of wealthy private firms in the City, at the same time as it was obliging even the poorest classes to make sacrifices”. It was felt that it would be particularly difficult if it was believed “that these firms had put their money into risky business and must be left to suffer the natural penalty”. It was concluded that the BoE would deal with the Hungarian and South American problems in a consortium with the joint-stock banks, leaving open the question of the much bigger German debts.\textsuperscript{63} A copy of these notes was forward to Kenneth Oswald Peppiatt, Head of the BoE’s discount office. He met with the Treasury on 28 October 1931.

The BoE tried “to separate the sheep from the goats”.\textsuperscript{64} Although the records of most of the accepting houses held by the BoE are closed to access, some are available to researchers. The available records show that pressure was applied to Japhets to improve its financial position in the autumn of 1931. A file note dated 28 November 1931 records details of a meeting between the head of the discount office, Peppiatt, and Paul Lindenberg, a director of Japhets, in which Peppiatt points out that he has “become embarrassed at the number of enquires” about the firm and “the adverse rumours [that] had been circulating”.\textsuperscript{65} On 21 June 1932, Saemy Japhet met with Norman. He explained that the firm had reduced its exposure in the market by buying its own acceptances, but funds were now short. Norman advised him, somewhat unsympathetically, to consult his own bankers, saying that “Japhets should have made [a] preliminary approach to their bankers many months ago”.\textsuperscript{66} Similarly, in a meeting with Mr. Hartner, general manager of the LMB, Peppiatt records “like all the weaker institutions, [it] is finding difficulty in placing its acceptances but so far has not found it necessary to have recourse to its bankers”.\textsuperscript{67} By 16 December 1931, the situation had changed with the firm being “forced within the last few days to approach [its] Bankers (the National Provincial)”.\textsuperscript{68} In February 1932, Norman was advising
the directors of the LMB to amalgamate or liquidate. In the absence of evidence about how the likes of Schroders, Kleinworts and other larger houses were treated, it is difficult to draw any general conclusion about the BoE’s handling of the crisis. There are, however, two examples where a more generous approach was taken.

Lazards was on the brink of closure in July 1931, but not because of the general crisis. The firm had suffered a fraud in its Brussels office, resulting in a loss of £6m. It needed £5m immediately to survive. The BoE provided £3m with the balance being obtained from S. Pearson & Sons Limited and the French house, Lazard Frères, but another £½m was needed. This additional amount was provided by the BoE as a loan to Pearsons, repayable over seven years, to enable it to invest more in Lazards. The partners in Lazards were in effect reduced to employees. Lazards undertook to close all its foreign offices. This situation was another example of poor risk management by a merchant bank.

In September 1931, the Anglo-South American Bank (hereafter ASAB) faced collapse. Its closure would have had a severe impact on the London money market. Much of its growth had been in Chile and it was heavily involved in the accepting bills for the nitrate trade, which had been largely frozen. The BoE agreed to continue to discount the ASAB’s acceptances without restriction. It also lent it £1m with a further £2m being provided by four clearing banks. Unfortunately, an investigation in November 1931 revealed a worsening situation. The original bailout participants increased their subscriptions, and other banks also provided funds. The BoE put in a further £2m. Eventually in July 1936, the BoE agreed to the acquisition of the troubled bank by its rival the Bank of London and South America, known as BOLSA. The BoE’s final loss from supporting the ASAB was almost £2½m.

The impact of the 1931 financial crisis was not restricted to acceptance business. In the USA, Kidder Peabody, Barings’ American correspondent for many years, had completely mishandled the financial crisis. It was noted by Morgan Grenfell in November 1930 that “they were very locked up & had to be helped by Chase Bank & JPM & Co. [J.P. Morgan & Co.] to amt of 10m $ & friends subscribed 5m $”. It was further noted that Kidder Peabody was found to have been “insolvent & mismanaged, in fact none of the partners knew how they stood”. By 1931, “JPM & Co. refused to take a/c from them [and] Barings found they could no longer work with them.”
Investment holdings were also severely affected. The merchant bank Wallace Brothers, which concentrated mainly on merchant activities in the Far East, experienced a sharp depreciation in the value of its investments and a violent slump in trade. Similarly, although Morgan Grenfell was less exposed than others to acceptance business, its investments were heavily hit. In 1931, it wrote off £480,191 12s 3d through its profit and loss account in respect of stock holdings, including Diamond Corporation, Creditanstalt, Amstelbank and Hungarian Italian Bank. Over the 1930s recoveries were made, which almost halved the expected loss, but it was nevertheless a significant number.

Rothschilds’ losses were even worse. Even though not closely involved in the acceptance business, Rothschilds suffered considerably in the crisis. Niall Ferguson has pointed out that in the 1920s Rothschilds had been involved with some of “the most disastrous investments of modern times” with the firm lending to “some of the most unstable regimes of the inter-war era”. He attributes this outcome to the resumption by Rothschilds of its pre-war activities without any proper re-evaluation. In an article about Rothschilds, Neil Forbes has examined the influence on business decisions of path dependency and familial connections. He concludes that the motivation of City houses in the interwar reconstruction of Europe has been misinterpreted as “it is hardly correct to assume that bankers were in no sense mindful of wider responsibilities”. Since the merchant banks were mainly tightly controlled, traditional institutions, path dependency must have created a strong force driving these firms to continue pre-war business patterns. However, indiscriminately continuing lines of business simply because of tradition was a high-risk strategy that would almost certainly have resulted in problems.

The opportunities for profitable growth to fund the losses sustained in the financial crisis were limited. After the sterling crisis of 1931, the BoE reintroduced restrictions on the issue of foreign loan in London. Indeed, between 1932 and 1936, only £3m was raised in London for countries outside the Empire. In 1933, Hambros Bank raised £1m for Denmark to construct a combined railway and road bridge between Zeeland and Falster. A condition of the loan was that all construction equipment for the project would be bought from the UK. These terms were looked on favourably by the BoE. This type of loan was, however, very rare.

Added pressures were experienced by those merchant banks that had Standstill bills in the market. After 1931, each year another Standstill agreement was arranged. The Standstill debts in London were German,
Hungarian and Austrian. These initially totalled about £66m, falling to £36m by the outbreak of war in 1939. Sayers wrote that the BoE “encouraged the fiction that these Standstill Bills were proper to be held in the market” but pointed out that this fiction meant that those firms affected would “need nursing sooner or later”. The manner in which Standstill bills were treated had the effect of changing acceptances into revolving credits, which had been precisely the effect of the easing of eligibility rules by the Federal Reserve in April 1915. Unsound practice was now at the core of the London money market.

If it had become known that the Standstill debts were in fact frozen loans rather than highly liquid acceptances, the London money market and many of its institutions, including some merchant banks, would have been undermined. By 1934 it seemed likely that an Anglo-German clearing arrangement might be introduced. Such an arrangement would, however, have destroyed the fiction surrounding Standstill debts and would have resulted in the market refusing to deal in such bills. Sayers noted that the BoE instigated urgent investigations into the exposure of the accepting houses. It showed that six merchant banks were so heavily involved in Standstill debts that special aid would need to be found. On 24 October, the Governor warned the Committee of Treasury that the BoE might have to join in a rescue operation for four of the firms. According to Sayers, the danger passed, and the Standstill arrangements continued. However, it was understood that the situation would have to be faced eventually.

On 13 January 1936, the Spanish Payments Agreement came into force. Remittances from Spain in respect of maturing acceptances were in effect suspended and all payments had to flow through a clearing system. The Department of Overseas Trade believed that acceptances of £2m or more due within ninety days in respect of Spanish business were outstanding at the end of 1935. Although small in comparison with the German indebtedness, it added to existing exposures. The banks with large exposures included Kleinworts, Hambros, the British Overseas Bank (hereafter BOB) and the ASAB. The BoE argued in favour of “granting them priority to the extent that funds are available in the Clearing” as otherwise it would mean “destroying this business in the future”. The Anglo-Spanish Clearing Office was not convinced. An official wrote that the claims for bankers’ acceptances amounted to £2.7m plus credits of another £1m as yet unutilised but felt that special treatment was unwarranted as “there may be difficulty in defending the
claims of symbolic wise virgins who would appear to the unimaginative eye in their earthly guise of exceedingly prosperous City financiers”. Nevertheless, shortly afterwards, special arrangements were negotiated with the Centro Oficial de Contratación de Moneda. The Moreno and Madlon agreements, in respect of credits given by accepting houses to Spanish Banks and Spanish commercial concerns respectively, allowed for renewal bills to be issued and also established settlement dates.

The situation in Spain deteriorated further with the outbreak of civil war in July 1936. In February 1937, the Madlon bills were in default, not due to a lack of funds, but because of the lack of a suitable authority to make payments. By June 1937, this situation was resolved with the Moreno and Madlon bills paid, but by then post-clearing bills were in default. Clearing arrangements had also been put in place with other countries, including Poland, Rumania and Italy. The BoE needed to re-evaluate the situation with the London discount market.

In respect of the BoE’s investigation of 1934, Sayers does not name the firms which the bank was concerned about. Apparently, a further confidential report was produced in 1936. Roberts has written that this report revealed that six accepting houses were technically insolvent owing to their Standstill debts; the firms were Schroders, Kleinworts, Huths, Japhets, Goschens & Cunliffe and Arbuthnot Latham. In a series of secret letters from the BoE to the accepting houses dated 24 June 1936, supplementary information was requested about their exposures to the German and Hungarian Standstill agreements. Most returns are still closed to access by the BoE, but from the few available the continuing seriousness of the situation can be seen. For example, Japhets had outstanding exposures in excess of its entire capital—Table 7.7.

In 1937, BoE finally acted. It was announced that by 30 September 1937 accepting houses had to withdraw 30% of their German Standstill bills from the market, and after 15 October 1937 Hungarian Standstill paper would only be eligible at the BoE up to £½m for each house. These changes to policy put enormous pressure on a number of the merchant banks. As the international situation continued to deteriorate, the BoE continued to attempt to clean up the money market. In May 1939, the accepting houses were asked to take-up a further 40% of their Standstill bills before 1 November 1939. Norman asked the clearing banks not to refuse Standstill bills as collateral for loans. What the BoE did for individual banking firms, for the sake of protecting the London market, was kept very closely in the hands of the Governors and their
highest officials, and the utmost secrecy was maintained. This continues to be the case today. Sayers noted that one accepting house, with smaller figures, was helped by the BoE on the condition that it withdrew from the acceptance business, while a few “Special Advances” were made to other firms. Two of these firms, the BOB and Goschens & Cunliffe, eventually closed.

As the Standstill continued, some creditors had broken ranks, and a market in distressed debt developed. The Netherlands and Switzerland, which had been significant creditors, adopted clearing arrangements. Many American creditors sold out at a discount. For example, Schobanco had aggressively reduced its exposure to Standstill debts from $12.4m in July 1931 to less than $½m by the time the war broke out between Germany and the USA. Some British institutions were willing to realise significant losses by accepting settlement in Registered Marks—a form of blocked Marks. Rothschilds is believed to have used this method to withdraw completely from Germany. However, the merchant banks’ general reluctance or inability to extricate themselves from Standstill debts meant that by 1939 credit lines from British creditors represented 57% of the total outstanding, whereas it had been 24%
in 1931. British bankers accepted Standstill reluctantly on the grounds that the alternatives, such as a complete moratorium, clearing arrangements or withdrawal at a loss, were worse.\textsuperscript{93}

**Conclusion**

The lack of long-term capital in many countries led to the use of short-term finance for purposes other than trade credit. Revolving credit facilities gave the illusion that short-term credit would constantly be available, and so could be used for long-term investment projects. The substitution of reimbursement credits for traditional acceptances distanced the users of credit from those ultimately providing it. Competition combined with an almost insatiable demand for finance resulted in firms taking undue risks.

The financial analysis provided in this chapter highlighted that some merchant banks not only had a high concentration of their business in Germany, but also ignored commercial failures and prudent accounting in the pursuit of profits. In a speech delivered by Lloyd George in 1935, he stated “financiers were lured by the high rates paid by Germany [and] speculated madly”. He described the crisis as “a reckless ramp”.\textsuperscript{94} This suggests that the speculation was made consciously, whereas a more likely explanation is provided by path dependency. Many of the merchant banks were managed by a handful of partners, operating in an outmoded manner.

The regulatory supervision exercised by the BoE was inadequate, relying on informal chats and occasional exchanges of information. The BoE did provide selective support to some banks—for example, Lazards and the Anglo-South American Bank (ASAB). It also allowed frozen credits to be held in the money markets, creating a fiction of liquidity by their continuous renewal. Eventually in 1937, the BoE acted to clean up the money markets by demanding that the accepting houses gradually withdraw their frozen credits.

The question of moral hazard remains to be answered. No direct evidence has been found that those merchant banks that behaved recklessly had done so in the belief that they would be bailed out. Given the bad experiences of a number of firms in the 1920s, it is unlikely that there was a belief that risky activities would be underwritten by either the BoE or the Treasury.
Robert Boyce has remarked that it is one of the ironies of interwar history that Europe, having emerged from the Ruhr crisis with the help of American commercial lending, should then have faced destabilisation from American economic expansion. While the USA’s rapid growth in international finance in the interwar period was a factor in the ensuing crisis, Britain’s banks, especially a number of merchant banks, played a significant part too. The shock of 1914 had not been sufficient to drive sufficient change in the business strategies of the merchant banks. Would the 1931 financial crisis and its aftermath do so?

NOTES

4. BoE, ADM34/9, 29 July 1920; ADM34/10, 7 July 1921; 22 December 1921.
10. The Times, 11 June 1923; 2 July 1924.
18. BA, File 200476, Germany Vol. 1 (1924–1930), confidential memorandum, 26 October 1928.
19. BA, 200476, Telegram from Kidder Peabody and reply from Trumbell, 4 March 1930. Note: 8 Bishops gate was Barings’ London office, and the “Corporation” was the Kidder Acceptance Corporation.
20. BA, 200476, Letter from 22 Place Vendôme, Paris to Sir Edward Reid, enclosing extract ‘from a letter from the representative in Berlin of an American Institution to his Head Office’, 19 September 1930.
27. LMA, Ms 29295/3, AHC, Minutes, 2 July 1929.
33. *The Times*, 16 October 1931.
36. BoE, ADM34/20, Norman’s Diaries, 10 June 1931.
39. BoE, ADM34/20, Norman Diaries, 15, 16, and 18 July 1931.
41. Sayers, *Bank of England* (1976), p. 504. The figures in Table 3.22 herein show German acceptances from Great Britain of approximately RM886m (£43m) in July 1931.


45. BoE, ADM34/20, Norman Diaries, 24 July 1931.


47. TNA, T160/451(pt.2), Re-acceptance of bills, Papers leading up to draft Exchange Bill 1931, Notes for speech to be given to House (c.July–September 1931).

48. BoE, ADM34/20, 29 July 1931.


50. Macmillan Committee evidence, Harvey, 5 December 1929, Q.373.

51. Scotland, Ireland and the Isle of Man continued to issue their own currency notes.


53. The returns published in *The Times* newspaper were used as a data source for the analysis shown.

54. Macmillan Committee evidence, QQ.296–316.


62. Later documents in the same file (TNA, T160/451) show that Britain was also considering its own exchange controls. These plans were withdrawn in February 1932.


64. TNA, T160/451(pt.2), 22 October 1931.

68. BoE, C48/93 Discount Office, LMB, Meeting note, Peppiatt and Harter, 16 December 1931.
73. LMA, Ms21799, p. 134. Note: 10m m $ means $10m.
75. LMA, Morgan Grenfell, CLC/B/163/Ms28229, 1931 bad debts and recoveries (revised to 1938).
85. LMA, Ms.29308/2, AHC, Circulars, Acceptance Business on Spanish Account as affected by the Clearing System, 22 October 1936.
86. The Times, 26 February, 1 May, 10 June, and 6 September 1937.
87. BoE, C48/396, Note Re: Standstill from A. C. Bull to Governor, 11 June 1936. Cited in Roberts, Schroders (1992), p. 265. This file is closed to access by the BoE.
90. Harris, *Germany's Foreign Indebtedness* (1935) p. 53.

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The view that the supposed separation of British finance and industry was a source of economic decline has an established pedigree. The blame is usually fixed firmly on the financial system, with industry cast in the role of victim. For example, in 1917 the eminent economist Herbert Somerton Foxwell wrote that “the radical fault of our system lies in the fact that our financial, as distinguished from our banking, institutions are out of touch with our industries”. His target was not simply the clearing banks, but the financial system as a whole, which, in his view, “had carried specialism to an extreme”. Unfortunately, such views, which are widely represented in the historiography, present a simplistic picture of interwar domestic finance especially the different roles played by the clearing banks and the merchant banks.

While the clearing banks had had made significant inroads into sectors traditionally regarded as the preserves of the merchant banks such as acceptance finance and securities issuance, the two types of bank had very different business models. Unlike a merchant bank, a clearing bank typically had a large base of customer deposits to facilitate lending. Both types of banks were able to facilitate raising long-term capital, but, unlike the continental European Crédit Mobilier banks, were not structured to provide long-term finance themselves. The short-term nature of the liabilities of both the clearing and merchant banks meant their
lending tended to be short-term too—they both had a high liquidity preference. However, short- and medium-term financing was provided to British industry and commerce in the interwar period by both the merchant banks and the clearing banks with mixed results.

Unfortunately, there has been insufficient attention given to the role of merchant banks in the interwar domestic economy. This chapter will consider the financing provided to British commerce and industry in the interwar period by the merchant banks and other financial institutions. It will begin with an assessment of the provision of short-term finance both for export business and as a means of domestic payment, highlighting the growth of the bank overdraft and the decline of the inland bill. The use of acceptances, especially finance bills, in the interwar growth in instalment finance will be examined. Too easily dismissed as simply a form of consumer credit, the use of instalment finance as medium-term capital by British companies in the interwar period has been largely overlooked.

The historiography of the interwar economy has been too preoccupied with the problems of the staple industries and the alleged inadequate response of the City. It will be shown that the misuse of short-term lending by the clearing banks contributed to excess capacity in these industries. The solution was seen to be rationalisation. The role of the merchant banks in managing such rationalisations has not been given sufficient attention. The use of experts, both operational and financial, will be shown to have provided a growth opportunity for merchant banks as corporate financiers and advisers.

**Short-Term Finance**

The short-term money market was severely impacted by the outbreak of war in 1914. The financing of the war had also resulted in a huge growth in government-issued Treasury Bills in the market. It has been estimated that Treasury Bills amounted to £5.5m in 1913–1914—about 1% of the market, whereas by the 1920s the amount had increased to between £450m and £580m—more than 40% of the market on average. Nevertheless, the first signs of a revival in the discount market after the war were in bills for domestic trade—so-called inland bills. In May 1919, *The Times* reported that inland bills “form the majority of those which are coming forward for discount, and in some lines the business is large enough to make the bill an important one”. Foreign bills were reported to be “making their reappearance very spasmodically”.

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3. [Footnote]

4. [Footnote]
By the late 1920s, there were serious attempts being made to encourage the use of inland bills. In 1928, in his presidential address to the Institute of Bankers, Frederick Hyde, the joint managing director of Midland Bank, said that “it was regrettable that within the last 20 or 30 years there had been a tendency for bills … to be replaced by book credits, granted by the seller of goods to their buyers, which in turn often involved unsecured advances by bankers in place of discount facilities”. He thought that bankers should encourage the use of inland bills. Their fixed maturity was a strong point in their favour as well as being a generally cheaper form of credit than an overdraft, but also “because payment by bill was a strong safeguard against the tendency of book debts to become stale”.

These powerful arguments in favour of inland bills and were being made by a senior director of a large clearing bank. Does this indicate that lending policy was made at branch level and driven by customer demand?

There is evidence to suggest that there was no shortage of short-term facilities. In 1931, the Macmillan Committee was unequivocal about the availability of short-term finance from the accepting houses. It described the City of London as “the most highly organised international market for money in the world [whose] freedom and elasticity are without parallel. Its accepting houses and its discount market provide unequalled facilities for the financing of national and international commerce”. The report highlighted that such facilities “have been equally available to, and have in fact been largely made use of by British merchants and traders”. The report also confirmed the view expressed by Hyde about the cost-effectiveness of bills as a means of credit.

The committee’s comments were made with reference to the financing of trade and commerce, rather than to the financing of industry. This distinction is not necessarily between short-term and long-term finance. Short-term finance for industry, according to its report, was originally obtained “from the independent banks, often family banks, which in general had their headquarters in the provinces … particularly in the Midlands and the North”. It was noted that these relationships with local banks would continue as such banks were acquired by the larger clearing banks. The report implied that trade and commerce used the discount market while industry tended to use facilities such as overdrafts from clearing banks. Overdraft facilities were meant to be short-term credit but were often used as long-term funding as they were constantly renewed. These banking relationships are likely to have evolved, as
suggested in the report, because of historical ties—the City being more closely connected with trade; the provincial banks being more closely connected with local industry. In terms of the provision of short-term finance, the Macmillan Committee does not therefore suggest that there was any bias against British industry by the merchant banks.

The extent to which the merchant banks were involved in providing short-term financing to the British economy in the interwar period by means of acceptances should not be underestimated. It can be gauged by an examination of the geographical mix of acceptance business undertaken by Kleinworts between 1914 and 1930. The firm was one of the largest accepting houses at the time. Although detailed accounting records are generally not available for most firms, there is no reason to believe that Kleinworts was unrepresentative of the major accepting houses with respect to its domestic acceptance business. Figure 8.1 shows that Kleinworts’ British acceptances represented 15% by value of the firm’s total acceptances in 1913–1914 and remained at or well above that level until 1930; 1925 being the one exceptional year. The data are not available to show the mixture of such business between British trade,
commerce and industry, but between 1919 and 1923 British acceptances were at or above 25% of the firm’s total acceptances, reaching almost 35% in 1921. The firm’s commissions on British acceptances peaked in 1920 at more than £160,000—a not inconsiderable sum.

After the 1931 financial crisis, there was a decline in the number of foreign bills in the market, although many frozen bills were still present. However, even before then, there was a decline in bill volumes. R. H. Foà, a partner in the discount house of King and Foà, in his evidence to the Macmillan Committee acknowledged that there were also fewer domestic bills because banks preferred to make advances rather than discount bills. To illustrate the continuing diverse nature of the discount market to the committee, he produced a typical parcel of bills. It included bills used purely for inland business and those used to finance domestic export business, including the export of machinery to West Africa; the export of wool to America with a credit accepted by Barings; and the provision of working capital to the beet sugar industry in England. An unusual example was a six-month bill for shipbuilding. Although the discount market remained quite diverse, volumes had shrunk, but there remained a continuing hope that the use of inland bills would increase.

In a letter to The Times in late 1931, R. F. im Thurn, a former partner of the merchant bank J. C. im Thurn & Sons, argued in favour of the greater use of domestic bills, but he felt this required “reciprocal action by banks and industry”. Similarly, Lord Linlithgow lamented the extended use of cheques and overdrafts with the result that a “generation has grown up unfamiliar with the practice involved” in using the inland trade bill. He also warned against the illiquid assets created in bank balance sheets by overdrafts and felt that banks and others should “re-educate the commercial community”. In a speech to the general meeting of the National Discount Company in 1933, the hope was expressed that “the accepting houses, stimulated by the increased scarcity of Treasury and international trade bills, might extend their activities” to inland bills. While the use of inland bills was clearly declining relative to bank overdrafts and advances, some accepting houses made significant efforts to encourage the use of inland bills—most notably Erlangers and M. Samuels. Also in the 1920s Hambros became the third largest accepting house because of its domestic business. Archival records show that the domestic acceptance business of M. Samuels grew not only as a percentage of its overall acceptance business from just below 20% in 1928 to almost 75% by 1938, but in value from £4.5m in 1926 to £10.3m in 1938—see Fig. 8.2.
Nevertheless, there continued to be a reduction in the volume of bills in the London discount market. The decline of the “Bill on London” was caused mainly by the relative decline of London as an international financial centre, but other factors also played a significant part, especially the continuation of restrictive monetary policies and the deterioration in international trade.\(^{16}\) By the early 1930s, the diminishing supply of commercial bills to the discount market was a growing concern. As late as 1934, William H. Goschen, a partner in the merchant bank Goschens & Cunliffe, speaking as a director of the Union Discount Company of London explained that the business of the discount houses was “declining for lack of material, and the question is discussed as to why a more extensive use of inland bills is not made”.\(^{17}\)

While there seems to have been no lack of willingness by the merchant banks to provide acceptance credits, most of British industry and commerce had developed a preference for bank overdrafts and advances as their source of short-term credit. As a result, the discount houses complained of a lack of commercial bills, which had been their core business before the war. According to R. S. Sayers, the discount house Gilletts, which had been established in 1867, had to adopt “a change of attitude,
in response to the disappearance of the comfortable world of 1913, a change on which there would be no going back”.\textsuperscript{18} In the view of W. M. Scammell, not only was the quantity of bills declining but also their quality.\textsuperscript{19} The alleged decline in the quality of bills may have been related to the growth in finance bills to facilitate instalment finance. The \textit{bête noire} of the money markets had resurfaced.

**Instalment Finance**

Although after the war the Bank of England (hereafter BoE) discriminated against finance bills and retained this stance until the late 1920s, it gradually began to adopt a more pragmatic stance. The shortage of trade-based bills in the discount market resulted in representations being made to alleviate the discrimination against finance bills, especially bills for financing instalment or hire purchase trading that had started to appear in the market around 1926. According to Sayers, as a result of the increasing usage of instalment credit in the market, by 1928 Montagu Norman, as governor of the BoE, had started to accept the inevitable development. However, if instalment finance was becoming a feature of the money markets, Norman would use his influence to ensure stability.\textsuperscript{20} He investigated the market and focused on a particular firm, United Dominion Trust (hereafter UDT), which he helped by strengthening its capital structure. In January 1930, the BoE provided £250,000 through the purchase of ordinary shares in UDT, thereby doubling its paid-up share capital.\textsuperscript{21} Norman’s vision was noted in his diary after a meeting with UDT’s managing director, J. Gibson Jarvie, in late 1929. He recorded:

Jarvie - generally as to his objects in instalment buying finance: a Crusade to marry Finance & Industry but only rationalised industry: no luxuries. Propaganda will be needed: & he must withstand B of Trade & Thomas wish for palliatives.\textsuperscript{22}

This “Crusade” to provide medium-term credit to “rationalised industry” needed careful handling in Norman’s view. The Macmillan Committee categorised medium-term or “intermediate” credit to industry into two classes: “(i) hire purchase or instalment sales, (ii) advances against deferred payment”. Under the first category, the ownership of the goods was retained by the seller until payment was completed. It was used mainly by industry to finance motor vehicles, electrical equipment,
pumps and even agricultural appliances. The second category applied to the sale of larger units such as ships, coke-ovens and fixed machinery. The ownership passed on sale, rather than on payment, so the seller had to rely on the buyer’s creditworthiness for security.²³ It was felt that “adequate credit facilities for use internally in this country are available and are being developed”, but in the case of intermediate credit “not so much use is made of them as is possible and desirable”.²⁴ The clear conclusion was that there was no lack of supply, but an inadequate take-up of these credit facilities by industry at least at this stage. While there may have been a lack of familiarity with these new medium-term facilities, it is likely instead that bank overdrafts were being used by industry.

How did the merchant banks participate in this crusade? While the share capital provided by the BoE was used to stabilise UDT, a more dynamic and responsive means of financing was needed to accommodate growth. The permanent capital of hire purchase finance companies tended to be provided by insurance companies and, to some extent, the clearing banks. On the other hand, the bulk of working capital finance came from bank loans or acceptances in the form of finance bills. For example, UDT’s 1929 accounts disclose £100,000 of acceptances from the merchant banks Morgan Grenfell and Schroders.²⁵ The archival records of Kleinworts show the extent of its business with UDT as two additional ledgers were required specifically for UDT in the period 1927 to 1929. Kleinworts provided UDT with acceptance credits at an “[a]greed credit limit of £50,000 agst their drawing upon us at three month”. These arrangements operated between 21 July 1926 and 30 September 1929 after which there were no further accounting entries.²⁶

By 1930 there were five major hire purchase finance houses with a combined capital of £6.5m, but by 1937 there were eight such houses with a combined capital of over £16m, providing hire purchase credits of £13m with about 40% of the funding in the form of bank loans and acceptances.²⁷ Having spent ten years strongly opposing the use of finance bills in the discount market, Norman had to modify his stance and accept some finance bills as being eligible for discounting at the BoE. In early 1930, he records in his diary after a meeting with Robert Wyse, manager of the discount house Union Discount:

Wyse & KOP, … We take for present a percentage of Finance Bills home drawn, for some home a/c: 3 names: no securities or ships.²⁸
To be acceptable to the BoE, bills needed to be signed by the drawer, payee and acceptor—three names, but those drawn to finance the purchase of securities or shipbuilding were ineligible.

Despite the Governor’s strictures against the use of hire purchase for “luxuries”, during the 1930s the hire purchase finance companies such as UDT could not expand sufficiently by simply supplying medium-term credit to industry for plant and machinery. By the mid-1930s, hire purchase finance was being used to fund the purchase of motor cars and other consumer durables. UDT had plans to finance “electrical appliances and plant, including even the wiring of premises”. Later gas and electricity supply companies started their own instalment credit schemes to finance the purchase of home appliances as hire purchase shifted towards the consumer goods market. The Central Electricity Board encouraged distributors to offer hire purchase facilities to customers, but most of the funding was provided by finance companies. By 1937 the BoE had withdrawn from UDT, which by then was more than adequately financed by retained profits, bank loans and acceptances.

Some merchant banks were also directly involved in the rationalisation of hire purchase finance companies. For example, the merchant banker Edward de Stein was responsible for the formation of Mercantile Credit in 1934 and for numerous acquisitions by this group. The company provided a considerable amount of instalment credit to the growing market for radio and gramophones. Such developments are evidence of the continuing adaptability of the City to new opportunities. Nevertheless, not unlike the situation with domestic bills of exchange, hire purchase and other instalment credit schemes were not utilised to their fullest extent by British commerce and industry. This was not caused by any lack of willingness or inventiveness by the financial institutions but because of a lack of demand. The easier option of the perpetual bank overdraft seems to have been preferred by British industry, but the quality of lending by the clearing banks especially to the staple industries was generally poor.

**Excessive Lending**

The staple industries shared the common characteristic of being primarily export-driven. They included coal mining, iron and steel manufacturing, heavy engineering, shipbuilding and textile production. These industries tended to be based in well-defined areas—South Wales, parts of the Midlands, Lancashire and the West Riding of Yorkshire, the
Tees-Tyne area of Durham, the industrial areas of West Cumberland and Central Scotland.\textsuperscript{34} These areas were all close to the older coalfields as coal was the main source of energy for these industries. In the inter-war period, the staple industries were either in a state of depression or absolute decline. They faced a contraction of foreign markets because of local competition or tariff barriers, which was made worse by the overvaluation of sterling. There was also a lack of innovation in these industries that made their products costly or antiquated, and they were concentrated in market sectors facing general decline.\textsuperscript{35}

Some of these industries had over-expanded during the war. Restrictions on investment and consumption during the war had created pent-up purchasing power that resulted in a boom in the immediate post-war years, fuelling further expansion. Productive capacity was increased to meet demand and financial speculation was fed by bank credit. Some of the worst excesses occurred in the cotton industry. The situation was detailed in a BoE report. Lancashire had about one-third of the world’s spindles of which 70\% were used in the so-called American section.\textsuperscript{36} The depression was concentrated among the spinners in this section. The report stated that one influence on this section had been “the recapitalisation of about two-fifths of the industry in the post-war boom”. The speculative boom was reflected in average purchase prices of “six or seven times the pre-war capital”, and by less than half of the new share capital being paid up. The report also noted that “the rest being found mainly by loans and bank advances”.\textsuperscript{37} Thomas Balogh wrote that the lending policies of the clearing banks were far from prudent and that many of their advances simply should not have been made.\textsuperscript{38}

It was recognised at the time that the clearing banks had not dealt well with the staple industries.\textsuperscript{39} Edward Peacock, a partner in Barings, wrote to Norman in 1925 that the relationship of the “Joint Stock Banks to the coal and iron and steel industries under the present difficult conditions is a matter of importance which has been brought to my attention rather directly from one or two quarters recently”, including by the Minister of Labour, Arthur Steel-Maitland.\textsuperscript{40} In March 1930, Norman in his evidence to the Economic Advisory Council stated “a great deal of industry is committed to the Joint-Stock Banks. Some people say those positions are frozen. I know that some are frozen”. He felt that the remaining advances “have got to be realised at what they are worth today, and not at what they were nominally worth when they were made.
or with industry in a different state from what it is in today”.41 This was at the heart of a dilemma; if firms were allowed to fail, then some banks might also fail. Such a chain reaction might jeopardise the whole financial system.

By the 1920s, the clearing banks were experiencing “lock ups” (frozen loans) and bad debts. Advances by Lloyds Bank rose from £138m to £204m from 1923 to 1929, but the depression led to a sharp contraction to £140m by 1933.42 Lloyds had also financed some of Clarence Hatry’s dubious ventures.43 Other clearing banks were similarly heavily committed to the staple industries. Estimates show that in 1928 Midland Bank had 12.50% and 7.75% of its total overdrafts with the cotton and steel industries, respectively, whereas National Provincial had 10% of its overdrafts committed to the steel industry.44 The situation was indeed difficult for the large clearing banks, but it was the regional banks that were more seriously at risk. By 1928 two or three of the local Lancashire banks and at least two of the Big Five were heavily committed to the region. The extent of this exposure posed a threat to the banking system as a whole.45

During the mid-1920s, Norman devoted much of his attention to Lancastrian banks. While attempting to block further amalgamations among the “Big Five”, he hoped to develop a “Big Sixth” bank as a counterweight to the larger clearing banks. He was simultaneously seeking to merge the Lancastrian banks or to bring some of them together with either Glyn Mills or the Royal Bank of Scotland, but their industrial debts made it hard to accomplish.46 Some limited success was achieved by the merger in December 1927 of the Bank of Liverpool and Martins with the Lancashire and Yorkshire Bank to form Martins Bank.47 Nevertheless, increasingly the clearing banks were seen as part of the problem in respect of the staple industries. The clearing banks had fuelled the over-expansion of these industries often by means of revolving overdraft facilities that resulted in bad debts. The problem was not so much a lack of finance but excessive lending to industries in need of significant restructuring.

The fragmentary nature of most of these industries with numerous companies chasing orders in a shrinking market led to calls for rationalisation to reduce capacity and improve efficiency. These demands grew from a general dissatisfaction with the market’s inability to deal with these problems. The general view was that larger firms were part of the solution.48
RATIONALISATION

The rationalisation movement’s attempts at streamlining the staple industries may be classified into three approaches: those with the full involvement of the State as in coal mining; those in which both the State and the industry operated together as in the iron and steel and textile industries; and private sector solutions. The most notable of the private sector solutions involved the BoE and financial institutions, including the merchant banks.

In the 1930s the BoE formed the Bankers Industrial Development Company (BIDC) together with “a very considerable proportion of the most influential Banking and Financial Institutions of the Country”. However, Lord Colwyn, who was, among other things, the deputy chairman of Martins Bank, felt that the clearing banks should not be involved. Norman recorded in his diary

Colwyn entirely approving & welcoming BIDCo in wh he will help in any way possible. But thinks Jt Stock Bankers shd not be on Board or Council

Indeed, the draft agenda for the first meeting of the Board of BIDC shows that the advisory board was to comprise six merchant bankers plus a director from the District Bank and one from the Royal Bank of Scotland. This anomalous situation was later corrected. At the first meeting of BIDC directors on 16 April 1930, the “possible obstacles to the carrying through of [rationalisation] schemes” were discussed. One obstacle was felt to be “the Banks granting financial assistance to individual units of an industry in which comprehensive rationalisation was a necessity or desirable”. It was agreed that the BIDC directors “would, whenever such cases came to their notice, take any opportunity which offered of making judicious private representations with a view to bringing this danger to the notice of the management of the Joint Stock Banks”.

Norman and others felt that the BoE needed to address the root of the problem which was believed to be the chronic overcapacity in most of the staple industries. The BoE’s involvement in industrial rationalisation was an unusual development for the BoE. It was led by the Governor, becoming a key activity of the BoE in the interwar decades. In the cotton textiles sector, this aim was to be achieved through the Lancashire Cotton Corporation (LCC). Norman saw it as a useful
vehicle for writing off debts in overcapitalised cotton companies without triggering a local financial crisis.\textsuperscript{57} The progress was slow, but in March 1931 £2m debentures in LCC were issued by BIDC with the Sun Insurance Company guaranteeing the interest for five years.\textsuperscript{58} The issue was a failure.\textsuperscript{59} In the meanwhile, the continuing difficulties of the cotton industry led to the Royal Bank of Scotland rescuing William Deacon’s Bank in 1930 at the BoE’s behest.\textsuperscript{60} Further difficulties with Lancastrian banks resulted in the merger of the Manchester and County Bank with the District Bank in 1935.\textsuperscript{61}

It was not just short-term loans from the clearing banks that were the source of financial strain in the staple industries. Long-term loans raised in the capital markets were also a potential problem. In 1921, the north-eastern steel manufacturer Bolckow Vaughan raised £1m by the issue of debentures paying 8\%, resulting in the firm being significantly overcapitalised rather than undercapitalised.\textsuperscript{62} Its regional competitor, Dorman Long, also issued a huge £3.5m debenture in 1923 plus a further tranche of £0.5m in 1926. These two issues were made through the merchant bank Higginsons.

These examples from the cotton industry and the steel industry demonstrate that it was not a shortage of capital, but rather an excess of it, that was one of the root causes of the problems of staple industries. The type of financing used also contributed to the financial strain. It was not just the use of bank overdrafts that caused problems, but also of long-term debt with high interest rates. As excess capacity was often a problem, some firms aimed to reduce competition through mergers. For example, in 1929 Dorman Long acquired Bolckow Vaughan, and later in 1933 also attempted to acquire the South Durham Steel & Iron Company. This second acquisition had the support of BIDC. The chairman of South Durham, Viscount Furness, supported the merger “instead of carrying on with cut-throat competition”.\textsuperscript{63} Even Barclays Bank, the main banker to both firms was willing to accept concessions to make the deal work.\textsuperscript{64} However, neither Barclays, nor BIDC wanted to bear the risks associated with being the promoter of the deal. Peacock noted after a meeting with Frederick Goodenough, chairman of Barclays, that BIDC should merely “support the efforts of Barclays”.\textsuperscript{65} In preparation for the merger, Dorman Long proposed a scheme of arrangement to reduce its share capital by almost £9.5m by writing down overvalued fixed assets.\textsuperscript{66} While the scheme was approved by the High Court, the merger was called off mainly as a result of the dissent by the debenture holders in Dorman Long.\textsuperscript{67}
The view in a number of quarters was that the City could provide the answers needed. Guy Ridpath, the chairman of the Stock Exchange, felt that the clearing banks and industry as “interested parties” would find it difficult “to initiate negotiations or to arrive at a satisfactory agreement”. His solution was that “negotiations should be in independent hands” and he suggested that “in the National interest the big Financial Houses of the City would consider it almost a duty to undertake this task”.68 This possibility was discussed with Norman, who raised the matter with Lord Revelstoke of Barings and Vivian Smith of Morgan Grenfell.69 Similarly, in 1928 Arthur Colegate, who had been a director of the chemicals group Brunner Mond, proposed the formation of a Finance Corporation for the steel industry, which “might be extended to cover other industries”.70 He felt that the clearing banks “have not the kind of competence required to deal with the situation, nor would it be possible for them to take up the rather strong line that might be necessary at times”.

Contrary to Ridpath’s proposal, he also felt that the “Issuing Houses equally are unsuitable – their work is done at a much later stage after the nursing and reorganising of the weak concern is over and it can appeal to the public for any further capital it requires on its own merits”.71 His scheme was also considered by Norman at various meetings.72 Eventually Norman decided that he had to “apply cold water to grandiose schemes”.73

There was therefore no shortage of rationalisation schemes for the staple industries. There were post-war boom promotions in the iron, shipbuilding, jute, glass and cotton industries.74 An early attempt at reconstruction in the shipbuilding industry was led by a new merchant bank, Sperling & Co. with backing from Kleinworts. The Sperling Combine’s scheme centred on the Northumberland Shipbuilding Company, which had expanded through acquisitions. Its first purchases were made in 1919, when it acquired control of two well-known shipbuilding firms, William Duxford & Sons on the Wear and Fairfield Engineering on the Clyde. Further purchases during 1920 extended the geographical spread of the group. In 1920, there was also a failed attempt to buy the steel manufacturer Baldwins. By the mid-1920s, the shipbuilding industry was in depression, and the group faced severe financial problems. By 1926 Kleinworts and Sperlings restructured the group, but their interests in shipbuilding continued into the 1930s and beyond. Kleinworts’ original involvement in the shipbuilding scheme was
intended to be a short-term investment, but it lasted over thirty years, taking the firm into detailed matters of industrial management. Was this the level of commitment that was needed?

In 1929 in his evidence to the Macmillan Committee W. H. N. Goschen, chairman of the National Provincial Bank and also a partner in the merchant bank Goschens & Cunliffe, when asked whether it would be better “to have a few healthy bankruptcies?” answered “I think it would be a great deal better for everyone”. However, political realities had begun to drive the agenda. In a widely reported speech made in Manchester in January 1930, J. H. Thomas, Lord Privy Seal with special responsibility for employment in the second Labour government, said that manufacturers are handicapped in bringing about the necessary reorganisation and re-equipment by the fact that the long-continued trade depression has pushed them to the limits of the credit which they can reasonably expect to obtain from their bankers or which the bankers can reasonably be expected to provide.

He announced that “the City is deeply interested in placing industry upon a broad and sound basis and ready to support any plans that in its opinion lead to this end”. He further added an interesting comment that “schemes that, in the opinion of those advising the City, conform to this requirement will receive the most sympathetic consideration and co-operation of the City in working out plans and finding the necessary finance”. He was proposing that other parties needed to work with the City to provide workable solutions. In a similar vein, Norman in his evidence to the EAC stated that companies which conform to such requirements and advice and conditions as experts may approve, then I say that we will find them the money in London, and that if in London we cannot find it all we will get our American friends, perhaps, to join, because it may be that our American friends in the iron and steel industry would be able to give us the most modern advice.

Rationalisation had to be more than simply raising fresh capital or amalgamating struggling firms; a wholesale restructuring of industrial sectors was needed, which required both specialist industrial knowledge and financial expertise.
The BoE had already recognised that expert advice was required when it addressed the problems of its customer, Armstrong Whitworth, the engineering and armaments giant. Peacock, who was Norman’s closest adviser during this period, introduced James Frater Taylor to Norman. Frater Taylor was a Scotsman who had spent a large part of his career in Canada, specialising in the reorganisation of failing companies. He was to become a key troubleshooter for the BoE in the iron and steel industry. By 1928 the armaments business of Armstrongs had been merged with another armaments manufacturer, Vickers, to form Vickers-Armstrong. The remaining Armstrong interests were reorganised in 1929 into a new holding company, Armstrong Whitworth Securities Company with the BoE holding a major stake.

The American consulting engineering firm, H. A. Brassert & Co., were used to provide expert reports on the iron and steel industry. Its report on the merger of Pearson & Knowles, a subsidiary of Armstrongs, and Wigan Coal & Iron Co. recommended it “as a means of securing production at low cost with minimum capital expenditure, and of avoiding destructive competition”, which could be achieved “with sufficient capital and adequate management”. Albert Pam, a partner in Schroders, advised Norman on the financial structure. The merged firms would later evolve into the Lancashire Steel Corporation for which Schroders raised £1.4m of preference shares in 1935. Merchant banks like Schroders had moved from simply issuing securities to being more broadly based corporate finance advisers. Morgan Grenfell was another merchant bank that made this transition. It was closely involved with the steel industry from 1929 onwards, especially with The United Steel Companies. Even Rothschilds became involved in corporate finance, raising £7m for the Welsh steel manufacturer Richard Thomas & Company in 1937.

There is a lack of appreciation in the historiography of the role played by the merchant banks in rationalising the staple industries. For example, Elbaum and Lazonick have written that financial institutions “provided only short-term working capital to British industry (mainly through overdraft accounts), and as a result never developed the institutional expertise to serve the demands for long-term capital that did arise”. This is simply not correct. Such remarks indicate not only confusion about the different roles performed by the clearing banks and the merchant banks, but also ignore the growing important of corporate finance work for merchant banks.
This chapter has focused on the provision of working capital in the interwar domestic economy. It has been shown that there was no shortage of short- and medium-term from both the merchant banks and the clearing banks, but the form of such financing differed by provider. The merchant banks favoured the use of the inland bill of exchange, whereas the more convenient alternative was an overdraft or an advance from a clearing bank.

Owing to the highly liquid nature of the London money market, bills of exchange as a form of credit were generally cheaper than overdrafts or bank advances. Nevertheless, industrial firms preferred overdrafts. This preference may have arisen from the greater flexibility of overdraft facilities as bills had a fixed duration. Yet this flexibility was at the heart of the misuse of overdrafts as these were often constantly renewed and therefore firms started to depend on them as a means of long-term funding. This also had an effect on the lending banks as their desire for liquidity was frustrated by stale or frozen overdraft facilities. Although the merchant banks in their role as accepting houses were prepared to guaranteeing domestic bills and thereby providing a cheaper form of short-term credit, there was a lack of demand from domestic industry.

A similar situation was seen where medium-term credit in the form of instalment finance was made available. In this case, the merchant banks and other financial institutions provided credit indirectly by funding the finance companies that provided instalment credit. However, there was again insufficient demand from industrial firms with the result that such credit gradually started to be used to fund consumer spending rather than industrial investment. The rise of instalment finance demonstrated the adaptability of City firms, and indeed of the BoE, to changing circumstances. While finance bills had occurred extensively in the pre-war money market, their use had been frowned on in the 1920s. In supporting the growth of instalment credit, the BoE reluctantly had to allow finance bills to reappear in the money market.

Much of the historiography of the relationship between industry and finance in the interwar period has focused on the staple industries and the clearing banks to the extent that the involvement of other financial institutions, in both the rationalisation movement and the development of new industries, has been obscured. The accusation that insufficient finance was made available to industry is not borne out by the evidence
of the cotton industry and some parts of the iron and steel industry. Rather than a lack of capital, these sectors suffered from too much loan capital that could not be serviced.

There is some justification in the accusation that the clearing banks were loath to get involved in industry, but the same is not true of the merchant banks. Some merchant banks were involved in the rationalisation movement in the early 1920s; the Sperling Combine is a good example. Simply injecting capital into struggling businesses was not an answer, but this realisation dawned slowly. Successful rationalisation could only be achieved by combining the expertise of both industrial specialists and corporate financiers. The merchant banks developed the skills to provide financial advice that went beyond issuing securities into the realm of corporate restructuring. The emergence of corporate finance as a core competence of the merchant banks of the future had started. Those merchant banks that developed their corporate finance activities laid the foundation for profitable business for many decades to come. Corporate finance helped transform the businesses of these merchant banks.

Notes

4. The Times, 27 May 1919.
5. The Times, 13 November 1928.
10. The Times, 5 December 1931.
11. Victor Hope, 2nd Marquess of Linlithgow, was chairman of the Committee on the Distribution and Prices of Agricultural Produce in 1924. He was appointed Viceroy of India in 1936.


26. LMA, CLC/B/140/ Ms22081/026, Kleinworts, Client Ledger Accounts, London M-Z, 1926–1929; LMA, CLC/B/140/ Ms22081/027-8, Kleinworts, Client Ledger Accounts, UDT, 1927–1929. The reasons for the cessation are unknown but could relate to Kleinworts’ credit exposures elsewhere.

27. The eight companies are: British Wagon (from 1920); United Dominion Trust (from 1925); Midland Counties Motor Finance (from 1929); Mutual Finance (from 1930); United Motor Finance (from 1930); Mercantile Credit Company (from 1934); Forward Trust (from 1935); and Bowmaker (from 1937). See: David K. Sheppard, *The Growth and Role of UK Financial Institutions 1880–1962* (London, 1971), pp. 168–169.

28. BoE, ADM34/19, 6 Mar. 1930. “KOP” refers to Kenneth Oswald Peppiatt.


36. The Egyptian section produced finer cotton products.
37. BoE, BID 1/26, Bankers Industrial Development Co. Ltd. (hereafter BIDC), Lancashire Cotton Industry, Note by H.C., 28 March 1930.
40. BoE, SMT 2/72, Securities Management Trust, Iron and Steel, 21 August 1925–19 December 1930, Letter from Peacock to Norman, 21 August 1925.
49. Buxton and Aldcroft (eds.), *British Industry Between the Wars* (1979), pp. 20–21. The BoE was included in “quasi-State control” even though privately owned until its nationalisation in 1946.
50. BoE, BID 1/2, Establishment of BIDC, Board Minutes, Private & Confidential Memo, 15 April 1930 (capitalisation in the original).
51. Frederick Henry Smith, 1st Baron Colwyn from 1917. He was a rubber and cotton manufacturer. He was also Deputy Chairman of Martin’s
Bank and a director of several railway companies. He chaired the Committee on Bank Amalgamations in 1918.

52. BoE, ADM34/19, Norman’s Diaries, 2 April 1930.

53. BoE, BID 1/2, Agenda of 1st Meeting of Directors on 16 April 1930.

54. BoE, BID 1/2, Agenda of 2nd Meeting of Directors on 20 May 1930.

55. BoE, BID 1/2, BIDC, Board Minutes, 29 April 1930.


58. The Times, 26 March 1931.


63. The Times, 20 July 1933.

64. The Times, 28 July 1933.


66. The Times, 4 July 1933.

67. The Times, 30 November 1933; 14 December 1933.

68. BoE, SMT 2/72, Memo from Guy Ridpath (pencil annotation) on the Iron and Steel Trades, 10 May 1927.

69. BoE, ADM34/16, Norman Diaries, 11, 19 and 20 May 1927.

70. In 1926 Brunner Mond merged with three other British chemical companies to form Imperial Chemical Industries.


72. BoE, ADM34/17, 12 May 1927; ADM34/18, 27 February, 24 April, 3 May 1928.

73. BoE, ADM34/18, 3 May 1928.


77. TNA, CAB 24/209, The City and Industry, Extract from Speech by Lord Privy Seal on 10 January 1930 (Microfilm, p. 138) (my italics).
78. TNA, CAB 58/131, EAC, Committee on Iron and Steel Industry, Evidence of Norman, 21 March 1930, pp. 228–229 (my italics).
80. In 1912 Frater Taylor helped reorganise the Canadian steel company, Algoma Steel Company, of which he was a director together with Walter K. Whigham, a partner in the merchant bank Robert Fleming & Co. See: The Times, 7 June 1912.
84. The Times, 30 April 1935.
86. The Times, 26 January 1937.

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Much of the debate about capital exports has been focused on the pre-1914 economy particularly its relationship to Empire. Anver Offer has argued that capital exports produced “a painful trade-off” for the pre-1914 Liberal administration, which was to the detriment of the domestic economy. The results, he claims, were housing shortages, urban decay and a neglect of human capital. Martin Daunton has written that the arguments about the “domestic impact of capital exports seems parochial” as Britain and other Western countries undoubtedly benefited from the resources acquired as a result of their capital exports. Sidney Pollard, while sitting firmly on the fence, concluded in respect of the pre-1914 export of capital that considerable doubt had been thrown on “the simplistic practical, gut reaction view that it was harmful and on the equally simplistic neo-classical view that it must have been beneficial”. If the impact of the pre-1914 is therefore far from clear, what was the situation in the interwar period? This chapter will consider the involvement of the merchant banks and other financial companies in the provision of long-term finance for British industry in the interwar period.

Initially, the provision of long-term finance by the merchant banks to domestic business prior to 1914 is reviewed. Did the merchant banks regard the domestic alternative as second best to international finance? Did the situation change in the interwar period and, if so, why? Did the merchant banks have a change of diet because of a lack of international business or were domestic opportunities becoming more appealing?
The growth of new industries certainly created opportunities for financial institutions to raise capital for domestic business. The involvement of the merchant banks with these new industries is considered. Particular attention is given to the electrical power generation and supply industries as electrical power was the driver behind many of the new industrial developments. The final section reviews the City’s response to contemporary concerns about the lack of finance for smaller businesses—the so-called Macmillan gap.

Unfortunately, in respect of the interwar period, too much historiographical attention has been focused on the staple industries, lending policies of the clearing banks and the international business of the merchant banks, and insufficient attention on domestic corporate finance and the new industries. The analysis presented in this chapter aims to shift the focus from the somewhat sterile debate about the finance-industry divide towards a more balanced consideration of the important role undertaken by the merchant banks and other financial institutions in the growth of the interwar domestic economy.

**Domestic Alternative**

In the period between 1890 and 1914, there was little appetite for domestic capital issues among the larger merchant banks, although Barings dealt with issues for London Tramways and for the Mersey Docks & Harbour Board. In contrast, the stockbrokers Cazenove & Akroyds were involved in numerous domestic issues. Similarly, between 1903 and 1908, the private bank Glyn Mills dealt with issues for Vickers Sons & Maxim, the Metropolitan District Railway, Beardmore Williams & Co., and Cunard Steamship Company. In view of the extensive involvement of the merchant banks in raising finance for overseas infrastructure projects, it might be expected that they would be involved in similar domestic projects. One such missed opportunity was the electrification of the London Underground. Initial developments were left to speculative financiers with the project being finally rescued in 1905 by an outsider—the German-born merchant banker Edgar Speyer.

Did the merchant banks regard the domestic economy as a second-best alternative to international business, and only reluctantly became involved in the domestic economy in the interwar period because of a lack of international business? With the outbreak of war in 1914, the British government recognised the need for a shift from its previous
non-interventionist approach to the imposition of more control over capital exports. A combination of official regulations and unofficial “moral suasion” by the Bank of England (hereafter BoE) was used throughout the interwar period to control new overseas investment. The situation was further complicated by the objective of returning sterling to the gold standard at its pre-war parity. Did these changed circumstances, together with deglobalisation, drive a shift towards more domestic investment in the interwar period? Daunton has pointed out that deglobalisation between the wars certainly created problems not only for the traditional British exporting industries such as cotton, coal, shipbuilding and steel, but also for the City because of its long-standing commitment to capital exports. Taking a broader view of Britain’s economy in the 1930s, he has asked “whether Britain’s welfare was better served by ‘insular capitalism’ or an imperial customs union rather than by the open global economy of the second half of the nineteenth century”.

Historians have focused on the lack of suitable capital investment in domestic industry by the financial sector as at the root of interwar industrial decline. For instance, R. T. P. Davenport-Hines has stated that because the merchant banks were, in his view, pre-occupied with international loans and commercial banks unwilling to lend on extended terms, domestic business became “prey for more incompetent, greedy or crooked financiers”. This judgement seems harsh, but is it correct? Michael Collins has pointed out that, while international business was undoubtedly important to the financial sector, what remains controversial is whether domestic industry actually suffered as a consequence of capital being deployed overseas. The question also needs to be asked about whether there was adequate demand for long-term financing by British industry at this time.

There are two key assumptions underlying the alleged failure of industrial finance in interwar Britain. The first is that the financial sector missed opportunities to undertake profitable domestic business—the market failure hypothesis. The second is that the alleged economic decline could have been avoided if the City had properly financed industry—the declinist counterfactual. The question of whether capital markets failed in the interwar period needs to be examined closely. Similarly, the assumption that Britain’s alleged economic decline was as a result of the failure of financial institutions to support British industry cannot go unchallenged. In order to sustain the declinist counterfactual argument, it would be necessary, at the very least, to demonstrate that industry’s demands for capital were frustrated by the financial sector.
Writing about the pre-1914 capital markets, Alex Cairncross suggested several reasons for the apparent lack of long-term finance provision to British industry. He felt that the merchant banks’ preoccupation with the issue of large foreign loans and clearing banks’ strong preference for liquidity affected the supply side, whereas the “absence of any urgent need or desire on the part of business men for Stock Exchange facilities” and the prevailing view that Britain was already “tolerably well supplied with capital” affected the demand side.\textsuperscript{12}

Ranald Michie has supported the contention that there was a lack of demand. He has written that before 1914 many British businesses “made no direct call upon the organised capital market as it was accustomed to financing its own requirements from re-invested profits” supplemented by short-term credit.\textsuperscript{13} It is estimated that in the thirty years before 1914 only a small proportion of domestic net investment was financed through the capital markets, probably as little as £30m, with the remainder either being financed through retained profits or by direct investment of personal savings.\textsuperscript{14} Did the situation change in the interwar period?

\textbf{Change of Diet}

In 1918, the Committee on Financial Facilities stated that the machinery for a new issues market already existed, consisting of “a group of financial houses, comprising investment companies, well-known issuing houses, merchant bankers and others”. It further reported that this group could, “without neglecting enterprises abroad”, be able “to render further assistance, by identifying themselves with productive industries in this country and rendering financial support”.\textsuperscript{15} This optimistic assessment suggests that the merchant banks and other issuing houses had the capacity to do both foreign and domestic business. W. A. Thomas expressed the view that the machinery described by the committee “took a long time … to change its diet”.\textsuperscript{16} Path dependency both by the merchant banks and by industrial firms may have played a part; both may have needed to adapt their behaviour.

In 1929 the Balfour Committee considered, as part of its review of Britain’s economy, industry’s access to capital and financial facilities. The committee’s overall conclusion was that “subject to certain exceptions … the existing machinery for supplying British industry with financial facilities to meet its legitimate needs is adequate and suitable”.\textsuperscript{17} In addition
to retained earnings, industrial undertakings could obtain capital either by issuing shares or debentures, or through banks or similar financial institutions. Furthermore, the committee reported that generally “the evidence of representative traders and trade associations was to the effect that there is no lack of loan capital available for the use of British industry, at modest rates of interest, provided that reasonable security is forthcoming”. However, the view has persisted that there was a lack of long-term capital provision to British industry.

Some historians have implied that domestic business was viewed by the merchant banks as a second-best alternative to international business. For example, A. T. K. Grant explained the changing position of the old-established merchant banks in the new issues market as owing to “the diminution in overseas lending since the War, and the tremendous reduction in new issues for abroad since 1931 [causing] them to turn their attention to the handling of large issues on behalf of the home industry”. Similarly, Stanley Chapman has stated “the London merchant banks did not become seriously interested in industrial issues until their traditional business fell away to nothing and the average size of companies rose to meet their ceiling”. Perhaps the size of an issue was more important than the location of the issuer. The economist Herbert Somerton Foxwell, writing in 1917, seemed to think so. He wrote “our great Issue Houses … prefer those [issues] put forward by foreign Governments, municipalities, or the very largest transport companies. As a rule our English industries are too small in scale to attract the issue houses; the securities would not be marketable”.

Another consideration was highlighted by the Macmillan Committee. It noted the standards exercised by “the long-established issuing houses, whose reputation is world-wide” in dealing with foreign issues as well as “one or two first-class houses in the City” that handle domestic issues for “certain first-class companies”. It reported that their “duties are sometimes very onerous and involve a great of labour and expense, as well as judgment, skill and experience”. It contrasted these responsibilities with those of the clearing banks that, while allowing their names to be shown prominently in prospectuses, merely received subscriptions. It was felt that investors could thereby be misled. These judgements were based on the evidence given to the committee by two bankers: Goodenough of Barclays and Hyde of Midland Bank. Goodenough was questioned by the committee’s chairman about Barclays’ involvement in foreign loans.
Chairman: When you are employed as an agent to negotiate a loan to a foreign country, does your name appear in the transaction as recommending it?

Goodenough: Not recommending it. It very often appears on the prospectus.

Chairman: And does the fact that the name is one of the great British banks appears on the issue tend to commend it to investors?

Goodenough: Undoubtedly it implies that it is a reasonable proposition.²³

The fine dividing line between implying an investment was a “reasonable proposition” and “recommending it” was not explored further as another committee member started a different line of questioning. Two days later Hyde was questioned by Robert H. Brand, a partner in Lazards. He returned to the role of the clearing banks in securities issuance.

Brand: So far as the uneducated public are[sic] concerned it appears in the prospectus in large letters that Lloyds Bank, or the Midland Bank, is open to receive subscriptions. Do you think that leads the public that the joint stock bank making the issue vouches in some sort of way for the issue?

Hyde: Well, I think the banks have a duty to exercise reasonable care. Of course they are not going to say “This is an issue that we recommend that you invest in”. It may be a very speculative company, but if the statement is truly set out in the prospectus, and there is no attempt to deceive the public as to the real nature of the venture, I think the bank has done its duty in insisting that proper details are given.

Why was there such a fuss being made about whether the financial institutions vouched for the issues they dealt with? One of the topical reasons was referred to in the report. The “speculative fever” of 1928 had resulted in significant losses being incurred by investors. The report stated that when investing in domestic securities “clear guidance” should be given by the issuing house as simply because “you cannot prevent a fool from his folly is no reason why you should not give a prudent man guidance”.²⁴ Such an approach would place new responsibilities on issuing houses. Therefore, it would not just be the size and quality of a domestic issue that would need to be considered by issuing houses, but its suitability for the investing public. Investor protection was beginning to be seen as an important consideration.
In 1918, in a dissenting comment to the report of the Company Law Amendment Committee, the Liberal politician, Arthur Comyns Carr, wrote “during the war a remarkably widespread diffusion of money [was seen], and a wonderful growth in the habit of investment, among classes of the population to whom both are a novelty”. And with some prescience, he went on to express his concern that “there will be a large crop of new schemes appealing for public support, most bonâ fide, but offering unique opportunity to the fraudulent and over-sanguine”. He pleaded “for greater checks on new companies and new issues”, but his pleas were ignored. There was an explosion of new domestic issues in 1920s, resulting in inevitable losses. Pent-up investor demand, a lack of domestic issues during the war and the immediate post-war controls had led to a flood of issues in the 1920s. Prior to 1914, there had been few controls over capital issues, but war changed this situation with restrictive controls put in place. By March 1919, the Treasury realised that these rules needed to be modified. The regulations were repealed by the end of the year and replaced by oversight of new issues by the BoE.

In 1920, the total for Home issues was £324.6m, comprising £61.5m for public bodies and an enormous £263.1m for companies. In comparison, the totals for Empire and Foreign issues were fairly subdued at £40.6m and £19.1m, respectively. The rest of the 1920s experienced a steady increase in Home issues, reaching a new peak in 1928 as shown in Fig. 9.1. The Home issues for most years during the inter-war period consisted primarily of company issues, including investment trusts, rather than issues by public bodies, as shown in Fig. 9.2. The subsequent investment performance of many of these new domestic issues, especially those of 1920 and 1928, indicated a lack of quality. In 1921, Frederick Lavington stated “the market for new securities is made up of the vague, ill-organized group containing the Issue Houses, the company promoters and brokers, the underwriters and the advertisement houses”. Perhaps the caution exercised by the merchant banks in their limited involvement in the issue of domestic securities in the early 1920s was based on sound judgement.

As the demand for long-term capital by domestic industry increased after the war, one factor that would determine the role to be played by financial institutions was the method used to issue new securities. The usual methods of issuing new securities were as follows:
Fig. 9.1 New capital issues in the UK, 1921–1936 (£’m) (Source Author’s chart based a table in Grant, Capital Market in Britain (1967), p. 134, which shows figures from Midland Bank’s Monthly Review)

Fig. 9.2 Home new capital issues in the UK, 1921–1936 (£’m) (Source Author’s chart based a table in Grant, Capital Market in Britain (1967), p. 134, which shows figures from Midland Bank’s Monthly Review)
1. By means of an offer to existing shareholders only, often in direct relationship to their existing holdings—a rights issue.
2. By means of a prospectus inviting applications directly from investors—a public offer or, in the case of a new company, an initial public offer (IPO).
3. By means of an offer for sale where an issuing house acquires the securities and then offers them to investors.
4. By means of a private placing followed by an introduction to trade them on the stock market.

Each of these methods had advantages and disadvantages. The costs involved and the risk of an issue failing varied. Some issues were underwritten by financial institutions thereby guaranteeing to acquire any securities not taken up elsewhere, whereas other issues emphasised the absence of underwriting as a positive. The third and fourth methods required an issuing house to take direct responsibility for the issue and ensure its successful distribution to investors, whereas the first and second methods would not normally involve an issuing house but may require a bank to collect subscriptions and process allocations.

**New Industries**

Britain’s industry underwent substantial change in the interwar period with new industrial sectors being developed. Some new industries were driven by changes in consumer demand and in industrial techniques, including the generation and supply of electricity; the manufacture of electrical and radio equipment, the production of motor vehicles and aircraft; the provision of new modes of transport; the making of new materials; and the canning of foodstuffs. Others were aided by State action with the aim of creating or build-up of certain strategic industries, including synthetic dyestuffs; the production of beet sugar; the exploitation of coal oil and, though not obviously a strategic industry, the film industry.31

In 1928 and 1929 most capital in the private sector was raised for Land, Building and Building Materials, totalling £26m, and for Shops and Stores, totalling £37.7m. In 1928, Motor and Aircraft Manufacture accounted for £6.6m, which was not to be exceeded until 1935, whereas cinematography peaked in 1928 at £9.4m. The staple industries of Coal, Iron and Steel raised relatively small amounts until the mid-1930s. Throughout the period, significant sums were raised for public utilities.32
Electrical engineering together with the supply of electricity was probably the most important new industry in interwar Britain and one in which some of the merchant banks played a major role in developing. It provided a new source of energy to enable other new industries to develop at a distance from the coalfields of the north and west. Comparable in its importance to the electricity industry in the interwar period and a major catalyst for social change was motor vehicle manufacture. It, in turn, was closely linked with the growth in aircraft production. Food-related industries also underwent major changes in the interwar period. Spillers and Joseph Rank controlled almost 70% of Britain’s flour-milling industry by 1929 as a result of acquisitions made by these two firms to remove surplus capacity in the industry. Similar consolidation occurred in the food-canning industry in which 90% of can production was controlled by The Metal Box Company by 1929. Unlike the old staple industries, consumer-based industries—such as food, household products, electrical appliances such as radios, cars and, of course, house building—were focused on the growing domestic market.

Some new sectors were based on advances in chemistry such as the man-made fibre industry. By far, the largest firm in this sector was Courtaulds. Similarly, the industrial chemicals sector was controlled by Imperial Chemical Industries (hereafter ICI), which was formed in 1926 by the merger of four companies. It exercised control by means of patents and the supply of ingredients. The soap industry was dominated by Lever Brothers, which later amalgamated with Jurgens’ and Van den Bergh in 1929 to gain control of the growing margarine market. Other industries were revolutionised by technical advancements such as the old industry of glass making; Pilkington Brothers being the largest firm in the domestic market. Other new industries were based on materials such as aluminium, rubber and plastics. The rubber industry developed in importance due to the demand for rubber tyres for the motor vehicle industry. Dunlop was Britain’s largest rubber tyre maker.

A number of sizeable firms of the interwar period relied principally on internally generated funds for long-term finance. According to Leslie Hannah, between 1920 and 1938 some 28% of earnings on average were ploughed back into new investment by British manufacturing firms. The system of self-financing had many advantages. Also, an issuing house was not needed and there was usually no need to pay brokerage or underwriting commission. Between the wars, a number of large firms relied mainly on this source, including sizeable old established firms such
as Pilkington in the glass industry and Courtaulds in textiles, as well as some new, rapidly expanding enterprises like William Morris in the motor car industry. Yet this pattern of growth was limited to those firms that were sufficiently profitable.36

Some large firms raised fresh capital directly from the market by means of a public offer for sale. For example, Lever Brothers made repeated use of this method between 1914 and 1920 raising £20m mainly in the form of preference shares.37 The market seems to have had an almost insatiable appetite for Lever Brothers stock.38 In June and October 1920 public offers were made for no fixed amount, but merely not to exceed £4m each—this reflected the firm’s confidence. The capital raised in 1920 was used to fund the acquisition of the West African-based Niger Company, which was one of a number of acquisitions made by Lever Brothers in the early 1920s. It proved to be a disaster that pushed Lever Brothers into crisis.39 Not surprisingly, the next issue was by means of an offer for sale through the British, Foreign and Colonial Corporation (hereafter BFCC), a City-based finance house. The coupon on the preferred shares issued was 20% cumulative. When Lever Brothers wanted to raise capital for the Niger Company, it used Lazards to make offers for sale. Lazards offered debenture stock for the Niger Company in 1925 and again in 1930.40 By 1932, seven years after the death of Lord Leverhulme, the firm was in the hands of an accountant, Francis D’Arcy Cooper, and Lazards was then handling the firm’s issues. The issuing power of an established merchant bank was clearly felt necessary in difficult circumstances.

In 1926, seven of the largest British companies were owned by a collective total of 385,500 shareholders with an average holding of £311 and 85% of the shareholders owning £500 or less of the stock.41 This enabled some of these firms to raise new capital from their extensive shareholder base in the form of rights issues. ICI used this method in 1928 and 1929. By 1929, the firm had a loyal following of approximately 160,000 shareholders with an average holding of £300 each. Interestingly, ICI used its own finance company to underwrite the issues. It was called the Finance Company of Great Britain and America; it was a joint venture with Chase Securities Corporation of America.42

In 1932, The Metal Box Company made a public offer of mortgage debentures and preference share capital. The issue was made in 1932 and was underwritten by The British Shareholders’ Trust Limited (hereafter BST).43 BST was one of a number of finance houses that evolved in the
interwar period. Frederick Lavington described BST as “an interesting and important development in the marketing of Provincial securities”, noting the shareholders are composed in a great measure of those connected with the management of large undertakings; on the one hand, they bring to the notice of the Trust opportunities for profitable business; on the other, they form a market in which the Trust may quickly and economically dispose of at least a part of its issue.

The new connections with industrial firms based outside of the metropolitan financial centre were similar to the connections that had grown up with provincial banks in the pre-1914 era. The Metal Box Company was one of the success stories of interwar British industry. Under the leadership of Robert Barlow, the firm was at the centre of the rationalisation of the packaging industry evolving from a traditional specialist tin box maker to the leading British firm in the new industry of food canning. By the late 1930s, it was using rights issues to raise fresh capital.

It would be wrong, however, to conclude that most industrial firms did not use issuing houses when raising new capital. Another company that evolved in the interwar period out of a traditional business to become a leader in one of the new industries was the Dunlop Rubber Company. In 1919 it issued preference shares by means of an offer for sale through another new finance company, The Beecham Trust. The same issuing house was used by another thriving interwar concern, The Austin Motor Company. Later issues by Dunlop used issuing houses with more established reputations in the City. Its two issues in 1925 were dealt with by the BFCC together with the merchant bank Higginsons. BFCC was led by F. A. Szarvasy, who was on the boards of several other finance houses, including the Anglo-French Banking Corporation, Martins Bank, Guardian Assurance and the Daily Mail Trust. He was also a director of the Dunlop Rubber Company.

Higginsons was an Anglo-American merchant bank, and the London house of the Boston-based firm of Lee Higginson & Co. established in 1848. During the 1920s, Higginsons handled both overseas and domestic issues. It handled domestic issues for both old and new industries, including the brewer Bass, Ratcliff & Gretton in 1927; British Oxygen in 1921; British Photographic Industries in 1920; the steel manufacturer
Dorman Long & Co. in 1914 and 1923; Carlton Main Colliery in 1928; English Electric in 1920; wagon hirers Henry G. Lewis & Co. in 1925; The Horden Collieries in 1927; South Staffordshire Waterworks in 1926 and the flour-miller Spillers in 1924.52

Merchant banks also helped finance the aircraft industry. Many of the companies in this sector that survived the war tended to be privately financed, although investment was made by large engineering companies like Vickers and Armstrong Whitworth. Little rationalisation took place in aircraft manufacture either in airframes or in aero engines until 1930s.53 Some aircraft manufacturers diversified by either entering the motor trade or by forming an alliance with an established motor manufacturer, but most of these arrangements ended badly.54 Although Lazards handled an issue for the aircraft manufacturer Blackburn Aircraft in 1936, it was rearmament and government support that largely saved the industry.55 However, the merchant bank that did most for the aircraft industry, including commercial air transport, was Erlangers. The firm raised capital for the De Havilland Aircraft Company. It also gave advice to Short Brothers and to Saunders-Roe, the flying boat manufacturer. In 1935, the firm also purchased a small airline, Hillman’s Airways, after the death of its founder. Later this company was merged with other airlines to form British Airways Limited.56

The involvement of new finance houses and merchant banks like Lazards, Higginsons and Erlangers in domestic industry in the interwar period demonstrates the highly competitive nature of domestic financial services at this time. Contrary to the market failure hypothesis, potentially profitable opportunities were not ignored by the financial institutions. Furthermore, there were also emergent merchant banks competing for domestic business. Some were newly created such as Dawnay Day; Close Brothers; and Ostrer Brothers; others were old-established merchant banks that had changed their business focus from acceptance finance to new issues such as Chalmers Guthrie, while others were former stockbroking houses such as Helbert Wagg.57

Dawnay Day was founded in 1928 by Major-General Dawnay and Major Day. In the early 1930s, it became involved in reorganising the British gas industry. South Eastern Gas Corporation was launched in 1932 by the firm together with another merchant bank, Edward de Stein & Co. This new corporation had control of several local gas companies. Similar ventures were formed such as the Severn Valley Gas Corporation, Gas Consolidation and Palatine Gas Corporation.58 Close Brothers was
also involved in reorganising the gas industry. In 1934, Arthur Martens became a director of the firm. He conceived the idea of a public company that would consolidate smaller independent gas companies. The South Western Gas Corporation was formed for this purpose. The merchant bank Ostrer Brothers was established by Isidore Ostrer with two of his brothers in 1921. The firm was responsible for a number of issues, including Amalgamated Textiles in 1920 and the Gaumont-British Picture Corporation in 1927. The firm became a major force in film finance. Chalmers Guthrie was created from the merchanting and accepting house of the same name, originally established in about 1820. The new firm concentrated on domestic business, including issues for R.M.C. Textiles in 1928; Trowbridge Tyre & Rubber in 1929; and Hickson, Lloyd & King, a manufacturer of household materials, in 1930. On the other hand, Helbert, Wagg had been an established stockbroking firm since 1804 that moved into merchant banking in 1912. It participated in a number of new issues both domestic and overseas. Its income from securities issuance over the 1920s represented 56% of its general revenue with domestic issues accounted for 20% of overall issuing income.

**Electrical Power**

Further evidence of the involvement of merchant banks in new domestic industries can be obtained by considering the electrical industry. In 1917, the Board of Trade established two committees to examine the electricity industry. The first committee, chaired by Charles Parsons, investigated the manufacturing side of the industry. It noted the need for greater standardisation and larger firms in the industry to improve competitiveness. Also one of its recommendations was “[t]he provision of extended Banking, preferably by the establishment of Industrial Banks, to enable British manufacturers to secure and finance contracts and engineering enterprise”. The committee also recognised that a major stumbling block to manufacturing development was the inefficient organisation of the generation and distribution of electricity. A second committee was therefore established under the chairmanship of the Liberal MP, Archibald Williamson (later Lord Forres). He was also senior partner of the merchant bank Balfour Williamson. The Williamson Committee recognised the lack of long-term capital in the electricity supply industry, but noted that some companies had made “[s]erious technical mistakes [that] in some cases led to
financial collapse”, making it “very difficult to find capital for other enterprises which were technically and economically sound”. The committee’s important recommendations were incorporated in the Electricity (Supply) Act of 1919, but a lack of progress towards better coordination of supply led to another committee. In 1925, a committee under Lord Weir was established; it included Lord Forres. Its report was produced for the Ministry of Transport. Although the report was unpublished, it had a wide-ranging influence and formed the basis of the Electricity (Supply) Act of 1926. It recognised that there were two distinct parts of the industry—production and distribution. The recommendation included a reduction of the number of power stations and the control of a national grid (referred to as the “gridiron”) by the Central Electricity Board (hereafter CEB). The power stations would be operated by their existing owners who would be free to sell their output to the CEB.

The Weir Committee’s financial proposals were innovative. The committee believed that about £250m would be needed over fifteen years and estimated that “one-half of this new money will be required in connection with the development of distribution schemes, and this capital should be provided by the Local Authorities, Power or Distribution Companies as now”. The remaining half of the new capital would comprise amounts “to construct the ‘gridiron’ for bulk transmission” and “to provide local authorities or other authorised undertakers with the capital required for the erection of new selected capital stations or additions to present selected stations”. The committee’s view was that the capital raised under the first category should be in the form of “Electricity Stock” issued by the CEB with Government guarantees as to principal and interest, and the capital raised under the second section should be issued by the “Authorised Undertakers” empowered to construct the new stations, but again with Government guarantee as to principal and interest plus safeguards similar to those given under the Trade Facilities Act of 1921. One other interesting proposal was that the “Electricity Stock” should be issued in small denominations to encourage wide ownership as “it would be of considerable social value”.

Capital obtained by means of state support had been used extensively by public utility enterprises. One contemporary estimate made in 1928 was that two-thirds of the capital required by large-scale undertakings had been raised with some state assistance. However, this figure includes capital raised by privately owned electricity undertakings that had a statutory monopoly. In this most important sector, there was therefore
also competition from state-based enterprises. However, the City institutions had been involved in the electricity supply sector even before the war. In 1905 a syndicate, including Lazards, Helbert Wagg, Sperlings and R. Raphael & Co., promoted the formation of the St Neots scheme for construction of electric works and mains.75 Similarly, in March 1914 Schroders and Morgan Grenfell led a scheme to raise finance to unify London’s electricity supply.76 Foster and Braithwaite, the issuing house and stockbrokers, had close financial and directorial links with the electricity supply industry from its earliest days.77 Throughout the interwar period, Lazards raised long-term capital for the Newcastle upon Tyne Electric Supply Company (NESCO).78 Lazards also raised finance for other suppliers, including the Galloway Water Power Company in 1934, the South Wales Electric Power Company in 1937, and the B.C & H. Power Station Company in 1938.79 Merchant banks were also involved in the creation of holding companies for the electricity supply industry. Robert Benson & Co. and Edward de Stein promoted the British Power & Light Corporation, whereas Lazards promoted both the Edmundsons Electricity Corporation and West of England Electric Investments.80

The development of the electricity supply industry was vital to the creation of most of the new industries, particularly the electrical engineering sector. At the outbreak of the First World War, the German electrical engineering industry was more than twice the size of the British.81 The British electrical engineering industry was dominated by British Westinghouse and British Thomson-Houston (hereafter BTH), which were offshoots of their American counterparts, and the German firm Siemens. It is notable that growth occurred when the domestic supply industry was rationalised, and electrical engineering firms came under British control.82 The scale of the change can be seen by the growth in the electrical engineering sector. In 1907, this sector contributed only 0.7% of gross UK output, but by 1924 it accounted for 1.9% and by 1935 for 3%.83 It will be shown that a number of merchant banks played vital roles in this transformation, which was at the heart of industrial development in interwar Britain.

The restructuring of the British electrical engineering sector, which would in the late 1960s eventually result in the formation of the conglomerate GEC, commenced in the interwar period.84 Each of the large firms had a close involvement with a merchant bank in order to raise finance and to act as corporate advisers—Lazards for English Electric; Morgan Grenfell for BTH and Higginsons for General Electric.85 In 1917, the
Metropolitan Carriage, Wagon and Finance Company provided the capital for British Westinghouse to gain independence from its American parent. In 1919 both companies were acquired by Vickers, and the combined entity became the Metropolitan-Vickers Electrical Company. In 1929, it was merged with BTH and others to form Associated Electrical Industries (AEI). Morgan Grenfell advised on this merger. BTH had “indulged in an orgy of over-expansion” in the early 1920s, investing in supply undertakings through Power Securities, another electrical holding company and issuing house. To finance this expansion, Morgan Grenfell raised almost £1.5 million for BTH in 1921. General Electric had raised a relatively large amount of capital in April 1914, four months before the war, through a public offer of preference and ordinary shares in April 1914, so was in a good position to expand during the war. General Electric also invested relatively large sums between 1919 and 1921 in expanding its business. The money came from issues of new capital. These were public issues managed by the London Joint, City and Midland Bank. By 1922, General Electric’s capital was £8.9m against £1.5m in 1918. New capital was raised without difficulty for these firms in conjunction with their City advisers.

This section has provided a wide-ranging survey of the financing of British industry in the interwar period. It has shown that, while some companies continued to raise capital directly from the market or from their existing shareholders, there were also many companies that relied upon issuing houses. Some of these issuing houses were long-established merchant banks, whereas others were either emerging merchant banks or specialist finance companies. There was intense competition between these institutions and there was an ample supply of long-term capital to domestic industry, which is contrary to claims in the historiography. Many of the merchant banks were to establish long-term relationships with British industry during the interwar period. Nonetheless, were there sectors that were not provided for?

Financing Gaps

The Macmillan Committee reported that smaller and medium-sized businesses had great difficulty in raising capital “even when the security offered is perfectly sound”. In particular, the committee felt that raising capital “from small sums up to say £200,000 or more, always presents difficulties” as the expense of a public issue is too great in proportion to
the capital raised. It became known as the Macmillan gap. It was, however, recognised that “smaller capital issues are made through brokers or through some private channel among investors in the locality where the business is situated”. By the late 1920s, these informal methods of finance were under pressure because of the depressed state of the economy and increased levels of taxation, so an alternative method was needed. The committee’s proposed solution was “to form a company to devote itself particularly to these smaller industrial and commercial issues”. It thought that such an investment concern might be established by “the leading private institutions and the big banks”, although it “recognised that acceptance business necessitates the maintenance of a high degree of liquidity and is not consistent with serious liabilities in respect of industrial financing”, thereby effectively excluding the merchant banks as part of the solution.

Montagu Norman also had reservations about the involvement of the merchant banks. He recorded in his diary on a number of occasions that merchant banks should not combine acceptance business with issuing industrial securities. For example, in 1921 he issued warnings in separate meetings with George Akers Douglas of Higginsons and with Alfred Wagg of Helbert Wagg. He did so again in 1924 in a meeting with Charles L. Dalziel of Higginsons. He also repeated his warning to Wagg in 1925, noting “I discourage it.” This stance was inconsistent with the growing expectations that the merchant banks would be involved in the rationalisation and long-term financing of British industry. It was also particularly short-sighted given the evolution of a new breed of merchant banks from stockbroking roots such as Helbert Wagg, which had precisely the experience needed. These strictures by Norman may have delayed the merchant banks’ involvement in financing smaller companies as these issues were regarded as particularly risky. This gap was initially filled instead by specialist finance companies.

One of the most successful new investment vehicles evolved from the provincial stockbroking business of Arthur Wheeler. It was the Charterhouse Investment Trust. It was registered in late 1925 and shortly afterwards raised money from investors. By 1934, it was recognised as the first City institution to have responded to the Macmillan gap by creating a subsidiary to address the problem of raising finance for smaller industrial companies. It established the Charterhouse Industrial Development Company in which the Prudential Assurance Company held 40% of the shares. Wheeler had also launched the Gresham
Trust to focus on smaller issues. Full advantage was taken of opportunities in the emerging consumer-based businesses. In 1929 Gresham Trust successfully issued shares in Pye Radio, the consumer electronics firm; L. Rose & Co., the makers of Rose’s Lime Juice; and J. Hepworth, manufacturer of ready-made clothing. Later flotations included the Ingersoll Watch Company, J. Darnell & Son—a boot and shoe manufacturer; and Sun Electrical—a wholesale electrical firm. Unfortunately, the firm of Arthur Wheeler & Co. failed in March 1931, which by association hindered the business of Gresham Trust from December 1930 until 3 May 1933 when it made an issue for Oldham Press. In late 1933, one of the principal managers of the Gresham Trust, J. B. Kinross, resigned to start his own smaller companies investment vehicle, Cheviot Trust, which had been formed primarily to handle issues ranging from approximately £25,000 to £100,000. Between 1934 and 1938, Kinross handled over one hundred issues for small UK industrial and commercial firms.

In 1925, the merchant bank Japhets was instrumental in the launch of the Industrial Finance and Investment Company, receiving support from other merchant banks such as Rothschilds, Kleinworts, Robert Fleming and even the Dutch merchant bank, Hope & Co. The company was to give special consideration to British investments. The directors included Paul Lindenburg of Japhets and John N. Buchanan of J.C. im Thurn and Sons Ltd., the re-launched merchant bank. In 1935, Schroders also launched its own venture capital subsidiary, Leadenhall Securities. Norman apparently “greeted the news with circumspection”. He noted that Schroders was establishing an “industrial and possibly speculative business”, and instructed the BoE’s Discount Office to monitor the situation closely.

Growth also occurred in other investment vehicles. Before 1914, there were two merchant banks that specialised in the management of investment trusts: Robert Fleming and Robert Benson. During the interwar period, there was a re-emergence of the investment trust industry with various merchant banks launching new funds. A sample of such funds is shown in Table 9.1, but one of the most far-reaching developments was the unit trust, which enabled small savers to participate more securely in investment markets. Initially, fixed trusts were launched, which had portfolios that remained unchanged after launch and therefore required no ongoing investment management. Flexible unit trusts started to be established in 1934, and by 1936 were the dominant form
of unit trust. Unlike early investment trusts, the new unit trusts tended to concentrate their portfolios almost entirely in British quoted investments.111 By 1938 recommendations for a governance structure for all unit trusts had been made by the Board of Trade.112 One of the new merchant banks, Dawnay Day, was one of the early leaders in launching unit trusts.113 By 1940, several houses were involved in this investment movement and there were around one hundred unit trusts in operation with holdings of about £82m in securities.114 Investment management was emerging as an important line of business for the merchant banks, providing less risky access to investments for savers and a ready market for British industrial issues. These investment vehicles—many managed by merchant banks—were another example of how the City provided support to industry. These vehicles not only allowed the pooling of savings for investment but provided a market for industrial securities.

**Conclusion**

This chapter set out to shift the focus from the somewhat sterile debate about the finance-industry divide in the interwar period to examine the important roles undertaken by merchant banks and other financial institutions in the growth of the domestic interwar economy.

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Table 9.1 Interwar connections between Investment Trusts and Merchant Banks

<table>
<thead>
<tr>
<th>Investment Trust</th>
<th>Merchant Bank connection</th>
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<tbody>
<tr>
<td>Ailsa Investment Trust</td>
<td>Morgan, Grenfell &amp; Co.</td>
</tr>
<tr>
<td>British and German Trust</td>
<td>Helbert Wagg &amp; Co.</td>
</tr>
<tr>
<td>City and International Trust</td>
<td>Erlanger Ltd.</td>
</tr>
<tr>
<td>Compass Investment Trust</td>
<td>S. Japhet &amp; Co.</td>
</tr>
<tr>
<td>Continental and Industrial Trust</td>
<td>J. Henry Schroder &amp; Co.</td>
</tr>
<tr>
<td>English and International Trust</td>
<td>J. Henry Schroder &amp; Co.</td>
</tr>
<tr>
<td>General Consolidated</td>
<td>Erlanger Ltd.</td>
</tr>
<tr>
<td>Grange Trust</td>
<td>Morgan, Grenfell &amp; Co.</td>
</tr>
<tr>
<td>Mid-European Trust</td>
<td>Hambros Bank</td>
</tr>
<tr>
<td>1928 Investment Trust</td>
<td>M. Samuel &amp; Co.</td>
</tr>
<tr>
<td>1929 Investment Trust</td>
<td>M. Samuel &amp; Co.</td>
</tr>
<tr>
<td>Trans-Oceanic Trust</td>
<td>Helbert Wagg &amp; Co.</td>
</tr>
</tbody>
</table>

*Source* Author’s table based on information in Balogh, *Financial Organisation* (1950), pp. 258–259
Prior to 1914, there was little appetite for domestic capital issues among the larger merchant banks, but there was also limited demand from British industry at this time to raise funds in the capital markets. Domestic investment was usually financed through retained profits or by direct investment from personal savings. Apart from some large domestic infrastructure projects or issues by capital-intensive businesses such as brewing, many British industries at this time lack sufficient scale to warrant the cost of raising funds in the capital markets. The problem was more to do with a lack of demand than an unwillingness by the issuing houses to be involved. For instance, the Vassar-Smith Committee in 1918 concluded that the issuing houses, including the merchant banks, had the capacity to do both foreign and domestic capital issues. Similarly, in 1929 the Balfour Committee reported that there was no lack of loan capital for British industry. There needed to be a willingness by domestic industry to use the capital markets as well as a demand from investors for such issues.

After the war, greater official control over capital exports started to be exercised especially by the BoE. The objective of returning sterling to the gold standard at its pre-war parity meant higher interest rates and controls on capital exports, making overseas capital issues more difficult. These circumstances helped shift attention towards domestic issues. In the late 1920s, there was a flood of new domestic issues backed by huge investor demand. The quality of these issues and the manner in which they were promoted were generally poor, resulting in inevitable losses for investors. Perhaps the larger merchant banks had been fortunate to avoid these speculative issues.

By the 1930s, the circumstances had changed further as deglobalisation started to impact the international business of the merchant banks. The general shift towards the growing domestic economy especially in the new industries provided new opportunities for the issuing houses, including the merchant banks—the growth of insular capitalism. Although, throughout the interwar period, a number of sizeable firms continued to rely on internally generated funds for long-term finance, other began to use the capital markets to raise both debt and equity finance.

Some of the smaller merchant banks such as Higginsons had been involved in capital issues for both old and new domestic industries throughout the interwar period, while some traditional merchant banks such as Erlangers and Lazards played a significant role in developing
the British aircraft industry. Some newly created merchant banks organised the transformation of sectors of British industry. Dawnay Day reorganised the British gas industry together with the more established merchant banks Edward de Stein and Close Brothers. Ostrer Brothers were involved in various issues, but its main contribution was in film finance. Other firms changed the focus of their business to concentrate on domestic securities issues—examples include Chalmers Guthrie and Helbert Wagg. Contrary to the market failure hypothesis, the merchant banks and other financial institutions did not miss opportunities in the domestic interwar economy.

A good example of the close involvement of the merchant banks in the interwar domestic economy is the electricity generation and supply industry as well as the related field of electrical engineering. These sectors were probably the most important in the British interwar economy, being the engines for the growth of most of the new industries, including chemicals, motor vehicle production and aircraft manufacturing as well as the increasingly important consumer products industry as the Midlands and South-east became more affluent. A number of merchant banks were involved in the electricity supply sector even prior to 1914, but their impact was greatest during the interwar period. The firms of Lazards, Robert Benson and Edward de Stein raised long-term capital for power companies across the country. The restructuring of the British electrical engineering industry, which would culminate in the formation of GEC in the late 1960s, commenced in the interwar period. The merchant banks Lazards, Morgan Grenfell and Higginsons not only raised capital but also acted as corporate advisers to the major electrical engineering companies, fostering the growth of corporate finance as an important advisory service. These developments in which the merchant banks played a major role show the positive side of the interwar finance-industry relationship rather than the negative picture painted by the declinists.

Even in the smaller companies’ sector, the merchant banks and new finance companies supported the growth of fledging businesses in response to the so-called Macmillan Gap. During the interwar period investment trusts—many of which had been launched in the late nineteenth century to provide investment opportunities in overseas railways, agricultural mortgages and utilities—were revitalised by the merchant banks to provide investors with an opportunity to invest in domestic firms. Further adaptation gave rise to the unit trust industry that enabled
even small investors to participate in domestic investment markets. These developments contributed considerably to the growth of investment management activities in the merchant banks, which would for a number of firms form the basis of their future stability and growth.

The relationship between some City firms, such as the merchant banks and the new finance houses, and industry in the interwar period has been misunderstood. There was much closer involvement than is often portrayed. City firms responded to the challenges and in doing so laid a foundation for their own survival and future growth, especially in the fields of corporate finance and investment management.

**Notes**


5. BA, Digitised Collections, Prospectuses.


15. *PP*, Report of the Committee on Financial Facilities, Cmnd. 9227, 1918 (hereafter Vassar-Smith Committee), para. 41. (Sir Richard Vassar-Smith was Chairman of Lloyds Bank from 1909 to 1922.)
18. Balfour Committee, p. 47.
27. PP, Treasury instructions to the Capital Issues Committee, 1919, Cmnd. 99.
34. *The Times*, 2 November 1926; 16 December 1926.
35. *The Times*, 11 December 1929. The combined group became known as Unilever.
37. *The Times*, 3 March 1914; 15 November 1918; 3 May 1919; 3 November 1919; 1 March 1920; 14 June; and 16 November 1920.
38. The founder of Lever Brothers, William Lever, 1st Viscount Leverhulme, held all the company’s ordinary shares until his death in 1925.
42. *The Times*, 1 June 1928 and 19 April 1929.
43. *The Times*, 5 May 1932.
47. *The Times*, 9 July 1937 and 1 July 1939.
48. *The Times*, 26 March 1919. The Beecham Trust was led by James White. He died in 1927 probably from an overdose. The firm was later forced into receivership by the Westminster Bank. Although it had a success period as an issuing house, speculation in a Canadian company, British
Controlled Oilfields, led to its insolvency. See: *The Times*, 30 June, 1 July, 13 July, and 13 October 1927.


52. LBGA, Higginsons, S/1/4/b/14, Booklet giving details of companies with whom the firm acted an issuing house, January 1929.


55. *The Times*, 3 April 1936.


57. The founder of Close Brother, William Brooks Close, died in 1923. Under his will the original firm was wound up and a new company formed. See: Wendy Vaizey, *A Brief History of Close Brothers* (London, 1995).

58. *The Times*, 9 December 1932; 9 May 1934; 30 April 1935; and 3 June 1936.


63. SA, Accounts of Helbert Wagg, Box SH-000002 (1915–1924); Box SH-000002A (1925–1935).

64. PP, Report of the Departmental Committee appointed by the Board of Trade to consider the position of the Electrical Trades after the War, 1918, Cmnd. 9072 (hereafter Parsons Committee).
65. Parsons Committee, p. 12.
66. Parsons Committee, p. 10.
67. *PP*, Report of the Departmental Committee appointed by the Board of Trade to consider the question of the Electric Power Supply, 1918, Cmd. 9062 (hereafter Williamson Committee).
68. Williamson Committee, p. 6.
70. Ministry of Transport, Report of the Committee appointed to review the National Problem of the Supply of Electrical Energy (hereafter Weir Committee). The government was reluctant to publish the report. See: *HPD* (Commons), Vol. 188, c.2216, 2 December 1925. It was later made available to the Cabinet. See: TNA,CAB24/173/56.
72. Weir Committee, p. 18, s. 79.
73. Weir Committee, p. 18, ss. 81–83; p. 19, s. 86.
78. *The Times*, 1 December 1919; 12 December 1921; 1 July 1930; 30 October 1933 (now known as North-Eastern Electric Supply Company) and 29 May 1935.
80. *The Times*, 13 May 1929; 27 November and 16 December 1935.
82. There is evidence that foreign-owned, British-based firms had easier access to capital, but that this was not an important advantage. See: Geoffrey Jones, ‘Multinationals and British Industry Before 1945’, *The Economic History Review*, New Series, Vol. 41, No. 3 (August 1988), pp. 429–453.
89. LMA, Morgan Grenfell, CLC/B/163/Ms28178/008, Prospectus book, Item 44. Also: The Times, 21 November 1921.
91. The Times, 5 March 1920 and 2 June 1921.
95. BoE, ADM34/10, Norman’s Diaries, 1 February and 9 July 1921.
96. BoE, ADM34/13, Norman’s Diaries, 11 April 1924.
97. BoE, ADM34/14, Norman’s Diaries, 17 September 1925.
98. See, for example, Norman’s evidence to the EAC. See: TNA, CAB, 58/131, 21 March 1930, pp. 228–229.
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**Chapters in Collective Works**


Books


**Newspapers**

*The London Gazette*

*The Times*
In an article in The Times in 1927 entitled “Leading Merchant Shippers”, it was reported that there were “over 1500 merchant shipping houses in London”, dealing in every sort of commodity across the world. Among the principal houses mentioned were Arbuthnot Latham, trading in India, the West Indies and Central America; Blyth Green Jourdain, trading to Mauritius and South Africa; Ralli Brothers in Liverpool and Calcutta; Sale & Co., trading with Japan; David Sassoon and E. D. Sassoon, both of Manchester, Bombay and Hong Kong; Wallace Brothers in Burma and India; Antony Gibbs, operating in South America and Australia; and Balfour Williamson in Buenos Aires, Valparaiso and New York. All of these firms were regarded as merchant banks during the interwar period. Other firms mentioned in the article, such as Edward Boustead and James Finlay, were classified by Stanley Chapman as being merchant banks in 1914 but would later be regarded as purely merchant houses.

The merchant banks had evolved out of mercantile firms, but many of them maintained their direct involvement in mercantile activities alongside their banking business into the interwar period and in some cases beyond. The merchant banks had deep roots in the mercantile world as both traders and financiers. Were these activities merely the remnants of the past in a changing world? Would the surviving merchant banks inevitably move to a purely financial role?
During the nineteenth century, there were dramatic changes in transportation, including the spread of railway networks, the replacement of sailing ships with steamships and the opening in 1869 of Suez Canal. The result was improved access to markets with goods becoming cheaper and more widely available. While these changes increased international trade, the availability of telegraphic communications enabled manufacturers to deal directly with their customers, threatening the role of intermediaries such as the merchant banks. Chapman has concluded that this threat of disintermediation forced British merchants to rethink their strategies leading to changes in the kind of business undertaken or even to a withdrawal from merchanting into financial activities. \(^3\) He has described the financial sector as being historically “the traditional escape route of successful merchants”. \(^4\) Similarly, Charles P. Kindleberger described merchant banking as the prolonged intermediate stage in the development of banking from commerce. \(^5\) Were such transitions inevitable? If so, what evidence is there from the interwar period? The historian W. M Scammell stated that before 1925 a few merchant banks had specialised in certain part of the world and financed locally produced commodities “from planting to delivery”, but he claimed that after 1925 these firms became purely financial. \(^6\) Martin Daunton, on the other hand, has recognised that “an alternative trajectory was possible” as merchants might evolve into trading companies or investment groups. He has written that such groups were often “amorphous and loose”, making them less easy to identify than the traditional merchant banks. \(^7\) Geoffrey Jones has made the point that the economic depressions immediately after the First World War and again in the 1930s plus the adverse impact on commodity prices put British trading companies under severe pressure. Furthermore, British companies faced increased competition from American firms in Latin America and from the Japanese in the Far East, damaging Britain’s export trades. \(^8\) These circumstances ought to have encouraged firms to move away from mercantile activities, but that does not seem to have happened. While firms planned their strategies against this general economic background, important considerations were often firm-specific.

The inevitability of a transition by the merchant banks from commerce to finance is not borne out by the experience of individual firms. For instance, Antony Gibbs and Arbuthnot Latham continued to trade on their own account well into the twentieth century. Kleinworts kept its merchandise department going during the interwar period and later
converted it into a separate company called Fendrake Limited, dealing in a wide range of commodities from spices to metals. Rothschilds moved from trade to pure finance and back to a hybrid model. On the other hand, Parry Murray withdrew from banking in 1920 to concentrate on merchanting. Another merchant house, Harrisons & Crosfield, sold commodities on behalf of plantation companies, managed estates, provided insurance and acted as shipping and purchasing agents. Although Harrisons & Crosfield was never considered to be a merchant bank, it became one of the leading issuing houses in the London securities market in the first half of the twentieth century—an activity usually undertaken by merchant banks or specialist issuing houses. The situation was clearly more complex than suggested by some historians.

The surviving records of the firms considered in this chapter vary enormously. In the case of Wallace Brothers, Balfour Williamson and Antony Gibbs, archives survive covering the broad stretch of their histories, although there are gaps in the records of the interwar period. Other firms, such as Goschens & Cunliffe and Sale & Co., have left only fragments of information about their activities. Others had their records destroyed in the Second World War. For instance, the records of Rathbone Brothers, which were held in Liverpool, were largely destroyed by fire when the building in which they were housed took a direct hit by a bomb in 1941. Similarly, enquiries about access to the archives of Arbuthnot Latham were met with the response that “all our archives were bombed and destroyed during the war”. Nevertheless, sufficient information survives to provide insight into the mercantile activities of the merchant banks in the interwar period.

This chapter aims to show that there was no pre-ordained path for merchant banks. The first section will examine the growth of British overseas banks and their interaction with merchant banks operating in the same region. It will be shown that relationships were often supportive rather than competitive. These regional banks provided trade finance and investment capital, enabling local merchant banks to continue mercantile activities. The second section will show that the strategic importance of certain commodities, particularly oil and nitrates, led to the domination of these markets by either state-backed corporations or by well-financed multinationals. Merchant houses were forced to withdraw from these markets. The third and fourth sections deal with specific factors that determined the options available to certain firms. The third section explores the impact of local upheavals that led to the
virtual destruction of some firms, whereas the fourth section shows that a number of firms were constrained in their choice of activities by a lack of financial viability. Finally, the remaining two sections show that merchant banks did continue with both mercantile and banking activities throughout the interwar period. Those firms that succeeded maintained strong financial controls and adapted their business structure to spread risk.

**British Overseas Banking**

In the early nineteenth century, the growth of the domestic joint-stock banks and the demise of the private banks created an opportunity for merchant banking firms, often of foreign origins, to flourish especially in international finance. Later these merchant banks faced growing competition from the large clearing banks that had evolved from the earlier upheavals in domestic banking. The relationship between the merchant banks and the large clearing banks was complex. A similar situation arose in some overseas regions, particularly in South America and the Far East.

In the mid-nineteenth century, a number of British overseas banks were established. These banks usually had either their headquarters in London, whereas their operations were located overseas. They were formed exclusively to undertake banking in defined overseas regions. Although they had no domestic banking business, their ownership and control usually remained within Britain. One of their services was the provision of acceptance finance for exports from the British Empire to Britain. While the merchant banks had had first-mover advantage in the finance of British trade with continental Europe and the USA, other locations, such as Australia, Africa and Canada, had not been particularly important to the merchant banks, and so were left open for new banking entrants. In the Far East and South America, the situation was less straightforward. In these regions, expatriate merchants would encourage the launch of British overseas banks even though by doing so their own banking operations would be affected.

To some extent, the British overseas banks were established in regions that had fewer barriers to entry. The abolition of the East India Company’s monopoly over trade with India in 1813 and with China in 1834 and the growth of the trading centres of Hong Kong and Singapore gave rise to the demand for local banking services. Foreign exchange banking had been the preserve of the East India
Company, but so-called exchange banks entered the market in the mid-nineteenth century. While the British overseas banks provided services similar to the British domestic banks, the exchange banks were a distinctive sub-category that specialised in the provision of short-term finance for overseas trade and foreign exchange services. The most important exchange banks involved in financing Indian trade were the Oriental Bank, established in 1851, which failed in 1884; the Hong Kong & Shanghai Banking Corporation (hereafter HSBC), established in 1865; and the Chartered Mercantile Bank of India, London & China, established in 1858.

Relationships between the merchant banks operating in a region and their local British overseas bank were often cemented by cross-directorships or similar involvements. For instance, HSBC had a London-based consultative committee during the interwar period, and it included a representative from the merchant bank Mathesons throughout the period between 1919 and 1941. Similarly, the Chartered Bank of India, Australia and China, established in 1853, had a close connection with the local merchant banking community. Its directors included Alfred Dent of the merchants Dent Brothers between 1888 and 1925, W. H. N. Goschen of Goschens & Cunliffe from 1909 to 1945 and Lewis A. Wallace of Wallace Brothers from 1903 to 1929. By 1890, it was the leading bank in India, and in China its only serious rival was HSBC. In 1851, the discovery of gold in Australia had further boosted its business as trade with India, China, Singapore and the East Indies increased in addition to the existing substantial trade with Britain.

A similar situation developed in South America. Britain had invested considerable sums in the region to the extent that some countries might almost be regarded as part of the British Empire in all but name. Before the First World War, Britain had focused mainly on three countries in the region: Argentina, Brazil and Chile. By 1914, British banking in South America was highly concentrated. There were four British banks in the River Plate area (Argentina and Uruguay), three in Brazil and two in Chile. In 1914, the assets of the four largest British overseas banks in region were enormous—in excess of £32 million for the London and River Plate Bank, established 1862; over £22 million for the London and Brazilian Bank, established 1862; nearly £20 million for the Anglo-South American Bank (hereafter ASAB), established 1888; and about £14 million for the British Bank of South America, established 1863.
As in the Far East, expatriate merchant houses, including those with merchant banking operations, were closely connected with these British overseas banks. Table 10.1, which was extracted from a directory of London banking and kindred companies for 1911–1912, shows that the directors of these banks included merchants and merchant bankers. Although not captured in this extract, the merchant bank Foster & Knowles was involved in the creation in 1863 of the English Bank of Rio de Janeiro, which later became the British Bank of South America. Thomas Foster Knowles, who would become senior partner of the firm, also became a director of the London and River Plate Bank in 1897.

The merchant bank Erlangers had connections with the ASAB that resulted in securities issuance business, including issues for the Argentine Iron and Steel Company; South American Stores (Gath & Chaves) Limited; and the City of Santos. Moreover, partners of J. C. im Thurn used their connections with the British Bank of South America to become directors of local utility companies, including the Buenos Ayres Gas Company; the Bahia Blanca Gas Company; and the Province of Buenos Ayres Waterworks Company. However, the involvement of the expatriate merchant houses and merchant banking firms with the British overseas banks was in most cases less explicit, but did involve mutual support.

Table 10.1  Mercantile connections of British Overseas Banks in South America, 1912

<table>
<thead>
<tr>
<th>British Overseas Bank</th>
<th>Director</th>
<th>Merchant Bank</th>
<th>Merchant House</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anglo-South American Bank</td>
<td>Baron Emile Beaufort</td>
<td>Erlangers</td>
<td></td>
</tr>
<tr>
<td>British Bank of South America</td>
<td>d’Erlanger</td>
<td></td>
<td></td>
</tr>
<tr>
<td>London and Brazilian Bank</td>
<td>John Conrad im Thurn</td>
<td>J. C. im Thurn &amp; Sons</td>
<td></td>
</tr>
<tr>
<td>London and River Plate Bank</td>
<td>Charles Evelyn Johnston</td>
<td>E. Johnston &amp; Co.</td>
<td></td>
</tr>
<tr>
<td>“ “</td>
<td>Charles W. Drabble</td>
<td>Drabble Brothers</td>
<td></td>
</tr>
<tr>
<td>“ “</td>
<td>Kenneth Mathieson</td>
<td>Balfour, Williamson &amp; Co.</td>
<td></td>
</tr>
<tr>
<td>“ “</td>
<td>Merman Billing Sim</td>
<td>Frühling &amp; Goschen</td>
<td></td>
</tr>
<tr>
<td>London Bank of Mexico and South America</td>
<td>Alfred Naylor</td>
<td>Antony Gibbs &amp; Son</td>
<td></td>
</tr>
<tr>
<td>“ “</td>
<td>Henry M. Read</td>
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</tr>
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</table>

For instance, the coffee merchants E. Johnston & Co. helped manage and provided financial assistance to the London and Brazilian Bank during a crisis in the late nineteenth century. The firm Antony Gibbs provided partners with extensive local experience to act as directors of the London Bank of Mexico and South America.

In 1918, Lloyds Bank acquired the London & River Plate Bank, which merged with the London and Brazilian Bank in 1923 to form the Bank of London & South America (hereafter BOLSA). Lloyds Bank remained the controlling shareholder in BOLSA with a 57% interest. In the 1920s, the ASAB’s heavy commitments in the disastrous nitrate trade led to further banking consolidation. By 1931, the Bank of England (hereafter BoE) had to rescue the ASAB from imminent failure. In 1936, it was acquired by BOLSA with the assistance of Lloyds Bank.

During the nitrate crisis in 1921, the ASAB bought the acceptances of Antony Gibbs to provide support, and in doing so had almost precipitated its own downfall. Both companies were provided secret loans from the BoE. Therefore, like the domestic clearing banks and their merchant bank customers, the British overseas banks had a complex relationship with merchant banks that operated in the same region. While they were competitors, they were also a source of huge deposits that could be used to support local businesses, including the mercantile activities of locally operating merchant banks. As a consequence, those merchant banks that operated mainly in the Far East and South America continued their mercantile activities, unlike those merchant banks operating mainly in the USA and Europe that focused more on financial activities.

**Strategic Commodities**

By the late nineteenth century, there were growing opportunities for trade in commodities. The demand for gold, diamonds and base metals led to a large increase in mining investments. The control of the supply of commodities would be contested fiercely. In 1895, the discovery of gold at Witwatersrand in South Africa almost certainly contributed to the outbreak of the Second Boer War. By 1913, South Africa was supplying two-fifths of the world’s gold and employed about half of the capital of the British overseas mining companies. Raising finance for mining ventures presented a huge opportunity, which was mainly exploited by a new breed of merchant banker. Among these entrepreneurs were Julius Wernher and Alfred Beit of Wernher Beit, Barney
Barnato of Barnato Brothers and Sigismund Neumann of Neumann Luebeck, a founder member of the Accepting Houses Committee (hereafter AHC). Chapman classified these new firms as merchant banks. The Rothschilds’ investment vehicle, the Exploration Company, also funded South African and American mining ventures. In addition, the Rothschilds had a virtual monopoly on the supply of mercury through their investment in Spanish mines from the mid-nineteenth century. During the First World War, they profitably supplied mercury to the British Government.

The attraction of mining investments continued into the inter-war period. In 1926, Morgan Grenfell acquired a 6% stake in a diamond syndicate, which had been formed by Barnato Brothers, Ernest Oppenheimer, his partners in the London-based diamond merchants, A. Dunkelbuhler & Co., and associated corporations, including the Anglo-American Corporation. By 1930, Morgan Grenfell had increasing concerns about their exposure to the diamond trade. In a letter to Jack Morgan in December 1930, Edward Grenfell wrote that “Anglo A[merican] and its subsidiaries have tied themselves up with diamonds to sums approximately £7,000,000” and that Oppenheimer was in South Africa trying “to conclude working arrangements between the producers and the Government”. Such ventures were for high stakes.

By the outbreak of the First World War, oil had become a strategically important commodity. Both Wallace Brothers and Rothschilds had been early participants in oil transportation and distribution. In the late nineteenth century, Wallace Brothers was shipping North America oil, and later Russian oil in the Far East. There had been intense competition in the Far East between Rockefeller’s Standard Oil and the Rothschilds’ Russian oil company, BNITO. Jardine Matheson also transported BNITO oil, which was distributed by Wallace Brothers, but by the beginning of the twentieth-century Wallace Brothers had withdrawn from the oil trade. M. Samuel & Co., on the other hand, was by then in the ascendancy in this trade.

M. Samuels, together with its interlocking partnership of Samuel Samuel & Co., the Japan-based merchant house, was established by the Samuel brothers from funds retrieved from the family’s trading business. These two firms had been highly successful in Far Eastern trade. In the early 1890s, substantial profits were made in the rice trade, which were reinvested in developing oilfields in Borneo. The opening of the Suez Canal provided a major opportunity for the transportation of bulk
commodities. Between 1892 and 1906, over two million tons of oil was carried through the canal by tankers of which more than 90% was handled by the Samuels or, after 1897, by the Shell Transport & Trading Company, which they controlled.46 The merchant bank M. Samuels acted as Shell’s sole manager in addition to its banking activities, but the amalgamation of Shell with the Royal Dutch Petroleum Company in 1907 led to the resignation of Marcus Samuel from his eponymous firm which then ceased to manage Shell.47 Jones has largely attributed Marcus Samuel’s loss of control over Shell to his ineptitude and tactlessness in dealing with the British government and the Admiralty.48 While his attitude may have contributed to the loss, there was a shift taking place in the control of strategic commodities away from entrepreneurial firms towards large multinationals corporations.

By 1914, the oil industry’s concerns had shifted from the problems of oil exploration to those of organisation and distribution. The Anglo-Persian Oil Company (hereafter APOC) was launched in 1909.49 APOC lacked a distribution network, which Shell possessed. It also lacked capital as the British capital markets were reluctant to finance speculative oil ventures.50 State intervention would provide the solution. On 20 May 1914, an agreement was reached between APOC and the British government, which included a capital injection of £2.2m.51 Jones has described the oil industry’s transition “from the ‘heroic’ age to one of organisation-building”. He has explained that British oil companies had “emerged from shipping firms, East India merchants, or building contractors”.52 Before 1914, banking and financial groups, such as the Rothschilds and Deutsche Bank, had played an important role in the oil industry, but this structure was being replaced by multinational organisations, often state-backed. The control of strategic commodities could no longer be left to merchant firms and bankers. Those merchant banks affected needed to find other commodities to trade and finance.

Warfare significantly increased the importance of some commodities. The demand for nitrate for high explosives during the First World War is a good example. The merchant bank Antony Gibbs dominated the nitrate market before the war and undertook purchasing, shipping and financing of nitrate supplies for the allies during the war.53 The armistice caused the price of nitrate to fall and left suppliers with unsold stocks. In addition, the development of synthetic nitrate led to a major crisis in the nitrate industry. In 1921, the Chilean government became involved in the industry, negotiating a price reduction with the producers’
association, la Asociación de Productores de Salitre de Chile, in the hope of shifting surplus stock. The financial exposure of the merchant bank Antony Gibbs was a staggering £2.475m.

On 22 December 1920, Montagu Norman recorded in his diary that the directors of the ASAB would “take no more Gibbs Bills having over £3 mil’”, but seven days later, presumably after some pressure had been applied by the BoE, they agreed “to open line temp’y again in Chile for Gibbs Bills”.54 Antony Gibbs was being kept afloat by the ASAB.

In June 1921, Grenfell wrote to Morgan that nitrate is “unsaleable here and on the Continent and the Stocks in the Merchants and Bankers hands aggregate about £24,000,000 at cost”.55 Antony Gibbs, however, felt aggrieved that the firm’s services to the Government during the war in the nitrate trade, which it claimed had been provided “without profit or even charging administration expenses”, had gone unrecognised. Furthermore, the firm found itself in the “unpleasant position” of generally having been thought to have “made a lot of money out of the government”, and “getting no recognition gives colour to that idea”.56 By 1923, the BoE stepped in and gave Antony Gibbs a special advance of which £750,000 was drawn.57 The problems, however, would become more widespread.

In the 1920s, the powerful American firm of Guggenheim Brothers, which owned the American Smelting and Refining Company (ASARCO) that controlled a large proportion of the silver, copper and lead output in the world, decided to enter the nitrate business using a new process to extract nitrate from lower grade deposits found in their copper mines in Chile.58 J. P Morgan & Co. helped finance these developments.59 Morgan wrote to the partners of Morgan Grenfell describing the plan as “both practicable and advantageous”.60 A week later, he wrote privately to Grenfell in more glowing terms, stating that we are “deeply interested in the undertaking which, if it comes out anything like what we hope, will be of great value to the firm”.61 This combination of American industrial and financial muscle would radically change the industry. In late 1924, the Guggenheims bought the Anglo-Chilean Nitrate and Railways Company for £3.6m.62 In 1929, they deepened their commitment further by buying another British firm, Lautaro Nitrate Company.63 Notwithstanding this consolidation, the nitrate industry continued in crisis.

In March 1931, the Chilean government established the Compania de Salitre de Chile (COSACH) in an attempt to rationalise the industry. It was owned jointly by the nitrate producing companies and the
Chilean state. Bond issues by COSACH in the USA and Europe were made to raise £10m of working capital. Schroders managed the London issue. The issues failed with a significant percentage being left with the underwriters. The lack of investor interest proved to be justified when the Chilean government defaulted on the bonds in 1932.64 In 1934, the Guggenheims managed to extract the Anglo-Chilean and Lautaro companies from COSACH, but they did so at a considerable loss.65 The 1931 entry in a Morgan Grenfell journal under A. Gibbs & Sons recorded: “The whole nitrate industry collapsed & probably Gibbs business is confined to Australia”.66 Antony Gibbs survived by shifting its main focus to Australian timber.67 It remained a merchant bank, being re-admitted to the membership of the AHC in December 1946.68

Before 1919, British and continental European commercial interests had dominated the production of many commodities, but after the war European direct foreign investment stalled and even declined in the face of capital shortages. Meanwhile, American investment grew in raw material extraction and production, especially petroleum, rubber and base metals.69 While not always successful, state-backed corporations and well-financed large multinationals began to control vertically integrated businesses in strategic commodities. The merchant houses and merchant banks found it difficult to compete in these markets. Their role had traditionally been as trade intermediaries and financiers. The dominance of large, vertically integrated, well-financed multinationals left no room for small independent intermediaries. Consequently, those merchant banks that continued in commodity trading tended to be involved in less strategically important commodities such as tea, coffee, cotton and general goods. However, even those merchant banks with wide-ranging trading and investment businesses were not safeguarded from the impact of international conflict and its consequential turmoil.

**International Upheavals**

Although the two world wars obviously affected the businesses of the merchant banks, the most severe impact of these conflicts was felt by those firms concentrated in those regions that faced massive upheavals during the wars. Some of the merchant banking firms, which would face virtual destruction, were at the heart of large regional trading and investment conglomerates. A good example is Wogau & Co., which was founded in Moscow in 1839. By 1914, the firm’s Russian business had interests
in sugar refining, paper milling, metals and chemicals. In London, the firm was a leading merchant bank with capital of about £1m in 1914. However, during the Russian Revolution, the Bolshevists confiscated the assets of its Russian business. This once impressive group was effectively ruined, but the London-based firm managed to struggle on. In 1923, its sole remaining partner, Walter Waldemar Ffennell, became a partner in Guinness Mahon, which used Wogau as a platform for its own merchanting business. From 24 April 1939, these arrangements were formalised with Wogau being run for Guinness Mahon’s own account. On the same date, the staff of the London Merchant Bank, which Guinness Mahon had also acquired, joined the new department. The liabilities of the old firm of Wogau remained the responsibility of Ffennell, but Guinness Mahon provided him with an interest-free loan of £10,000 to be used as working capital in the new business. In a period of just over twenty years, Wogau had gone from being a substantial conglomerate to become the merchanting department of Guinness Mahon.

Another firm greatly affected by international events was Jardine Matheson. It was a trading group operating mainly in Hong Kong and China, but included a merchant bank, Mathesons, based in London. The group had made significant profits during the First World War by supplying the military, but experienced large losses in the 1920s in commodity trading. It returned to profitability in 1935 mainly because it had allegedly traded armaments to China. However, when war came to China in 1937, the firm suffered heavily both in Hong Kong and on mainland China. The escalation of the conflict marked the beginning of a decade of turmoil for the firm, forcing the closure of its offices in Hong Kong and China. It maintained a presence in Chungking in south-west China. The firm had often reinvented itself in the past in order to survive and prosper; it did so again after the war. The role of its merchant banking arm, Mathesons, had nonetheless been fundamentally changed. It no longer operated as a worldwide investment house; instead it performed banking and merchanting activities on behalf of the group only. In particular, it became closely involved in the group’s dried egg business.

Wallace Brothers, a founder member of the AHC in 1914, experienced similar turmoil to Jardine Matheson. In the nineteenth century, the firm’s steady business in India had been transformed by the addition of operations in Burma, especially in tropical hardwoods. In 1863, the firm spread the risk of this venture by offering shares to Indian merchants in the newly created Bombay Burmah Trading Corporation
(hereafter BBTC). The London firm, Wallace Brothers, provided finance and dealt with shipping commodities, while in Bombay its associate, Wallace & Co., dealt with local commercial activities, including the management of the BBTC. During the First World War, Wallace Brothers’ Indian operations had thrived. It was assumed that the Second World War would provide similar opportunities for local industry and trade, but the situation completely changed in December 1941 when Japan declared war on the USA and the British Empire. Japanese forces attacked British territories in Southeast Asia. Within five months, Wallace Brothers had been deprived of all its assets, including plantations, forests, sawmills, local offices and even 2000 elephants, as the Japanese forces advanced. Like Jardine Matheson, Wallace Brothers recovered after the war and continued in operation into the 1970s, but also, like Mathesons, Wallace Brothers’ banking business had already changed.

In 1911, Wallace Brothers became a limited liability company, Wallace Brothers & Co. Ltd. The company’s official historian noted that the firm “owned no ships, no merchandise, no stocks of timber, no wharves, [and] no property other than its office building”, deriving most of its income from banking operations. This suggests that it had followed the path from merchanting to finance, but the archival evidence shows a different picture. The firm had a long-standing connection with the National Bank of Scotland. In 1873, this bank had provided a revolving acceptance credit of £200,000 to be used by Wallace Brothers, Wallace & Co. and BBTC. By October 1914, the facility had increased to £1,000,000, “cementing and extending a connection which we greatly value”. These arrangements continued into the 1930s and beyond. Moreover, the firm had an arrangement with the BoE for advances with investments offered as security. It also had long-standing credit arrangements with some smaller accepting houses. Wallace Brothers clearly dealt with financing for the broader Wallace businesses, but during the interwar period was also dealing with trading activities. The archives contain correspondence between Wallace Brothers and timber brokers in the 1920s and 1930s about teak shipments, not just the financial aspects. There are also correspondence files in the archives relating to Wallace Brothers’ role as agent for business in the Far East.

The nature of the Wallace Brothers’ banking business did nevertheless change in the interwar period. Before the war in 1914, the firm had an extensive banking business. This can be evidenced by two lists produced in support of a claim made to the Foreign Claims Office in September 1915,
which were for amounts both large and widespread. The first list included “Bills duly accepted on German and Belgian banks” that were still in the firm’s possession. The second list included “Bills negotiated on German, French and Belgian banks” that fell due after the outbreak of war. In addition, a claim for a shipment of 220 bales of cotton requisitioned by the Germans was made. In contrast, its foreign bills ledger in the 1920s shows business relating almost entirely to Wallace & Co. and the BBTC. Like Mathesons, its banking business in the interwar period focused increasingly on the business of its immediate associates, rather than external clients. The banking operations of Mathesons and Wallace Brothers had transformed from international merchant bankers to internally focused banks that supported the merchanting business of its associates. Unlike in the case of Wogau, which was transformed by one catastrophic event, the Bolshevik revolution, it is less clear whether Mathesons and Wallace Brothers were changed by international events or would have changed their banking operations in any event. Nevertheless, neither of these merchant banks followed the path from merchanting to finance—the evidence shows that they withdrew from international finance to concentrate on financing their respective group’s mercantile business.

Another merchant bank with strong mercantile roots, which scarcely survived the interwar period but re-emerged after the Second World War, was Ralli Brothers. The firm was originally a Greek mercantile house from the island of Chios. As their business grew during the nineteenth century, the firm began to concentrate on the Black Sea grain market, but the international grain trade was becoming fiercely competitive with the emergence of continental firms such as Louis Dreyfus and Bunge. Fortunately Ralli Brothers had made the strategic decision to realign their business to focus on India, especially the jute trade. During the First World War, the firm had a government concession to supply jute for sandbags. The concession was initially exclusive, but after protests from the other firms a less generous arrangement was agreed. The firm prospered greatly at this time, but by beginning of the 1930s the economic depression was beginning to take its toll on the firm. In April 1931, the firm’s senior partner, Sir Lucas Ralli, retired owing to ill-health; he was dead within a month. By the end of August 1931, the firm’s New York branch was closed down; thereafter it conducted its business in New York through an agency called Argenti & Co. The following month the old partnership was converted into a limited company, Ralli Brothers Limited. By late 1931, the Indian business was closed down
too, having operated for over eighty years. Once again, Argenti & Co. acted as agents on a commission basis for the new limited company.\textsuperscript{90} After the Second World War, Ralli Brothers re-established its business on the Indian subcontinent, creating a separate company Rallis India Ltd. Ralli Brothers was by then operating much of its trading activity through a separate company, while retaining its merchant bank status.

While firms such as Wogau, Matheson, Wallace Brothers and Ralli Brothers managed to survive in both merchanting and banking, albeit with some adjustment to their business models, other firms struggled to overcome their financial burdens and ultimately did not survive.

**Loss of Creditworthiness**

Some of the firms that had large exposures to bills accepted before the outbreak of war in 1914 struggled to survive in the interwar period. Increased competition and a harsher economic climate exposed the weaknesses of these firms and raised concerns over their creditworthiness. Some firms responded to such loss of confidence by attempting to continue business as merchants only or by developing opportunistic merchanting activities to supplement a declining banking business. It is therefore important to consider the overall circumstances of these struggling firms as they may have been driven down a certain path by a lack of creditworthiness, rather than as a result of a strategic choice. For such firms, concentrating on financial activities was not necessarily an option.

A good example is Pinto Leite & Nephews. It commenced trading as a merchant in Manchester in 1846, but by 1890 had added a London-based banking operation. It was operating as an accepting house at the outbreak of war in 1914. In August 1922, it still owed the BoE £248,000 on bills accepted before the war, most of which was due from one debtor called Hagenaars. Henry James Glanville, the managing partner of Pintos, met with Norman to plead his firm’s case. Norman accepted that a special advance should be made as he felt that enforcement of the debt “\textsuperscript{91}would\textsuperscript{92}” close their good coffee business” with Hagenaars. Within two years, Pintos had repaid its advance.\textsuperscript{92} It was not clear whether Hagenaars repaid its debt to the firm, but, notwithstanding this recovery, by 1926 Pintos found itself in the bankruptcy court. Its final demise had been caused by the failure of a Portuguese firm, Messrs. Fonseca and Araujo, which owed Pintos a considerable sum. During the bankruptcy proceedings, however, a more detailed picture of the firm’s circumstances emerged.
Pintos had been making losses since 1921 not only because of the general trade depression, but also as a result of “heavy losses through the depreciation in the value of goods”. The firm had hoped “to continue the commercial section of the business”. It claimed to be solvent with a surplus of net assets of £142,303 but faced a liquidity crisis that caused it to suspend payments as a bank. The court doubted the value of the firm’s assets, consisting of debts of dubious value and goods with a declining worth, and placed the firm in bankruptcy. The proposed alternative was to allow the merchanting business to continue without the banking operation, but this option was not acceptable to the court. By 1928, the goodwill of the firm was acquired by the merchant bank Knowles & Foster, which had a long-established mercantile business in Brazil.

Unlike Pintos, which had repaid its pre-war debts, some merchant banks were left in a state of terminal decline as a result of their continuing exposure to pre-war liabilities. Some of these firms, such as Huths and Goschens & Cunliffe, struggled on for many years with assistance from the BoE; while others, such as Arthur H. Brandt and Chalmers Guthrie, were restructured with new owners. Many of these firms tried to recover their positions through mercantile operations as banking became increasingly difficult and high risk.

For example, Huths had been a major accepting house, but also had extensive merchanting operations. In 1914, the BoE had provided £3.3m to Huths against its debts arising from bills accepted before the outbreak of war in 1914. By August 1922, it had reduced its debt to about £1.2m but was unable to meet the deadline for repayment. An investigation revealed that Huths had doubtful debts not only on pre-war bills, but also from post-war business. In 1922, the BoE advanced a further £620,000 to Huths to save it from failing. While Huths’ acceptance business had led to these large liabilities, its partners saw the firm’s salvation in mercantile activity, especially the fur trade. Table 10.2 shows the involvement of Huths in the fur trade with major London-based fur specialists such as C. M. Lampson & Co. and Anning & Cobb. Among the furs being offered by Huths at the London Spring sale in April 1921 were the following: 188,500 Skunk, 122,000 Opossum, 87,200 Muskrats, 4325 Raccoon, 2050 Civet cat, 507 Silver fox, 8 Blue fox, 54 Cross fox and 100 White fox.

R. S. Sayers in his history of the BoE wrote that Norman wanted Huths to abandon the “purely merchanting part of the London business (in coffee, furs and other goods)” and close its New York operations. Norman’s diaries show that Huths wanted to continue its
merchants and activities. On 22 May 1923, Norman wrote “Huths fur business – Lampson in London: new compet^ in NY? abandon? [sic]”. Even with the involvement of the fur specialists Lampson, Norman was not convinced that this business should be continued. Nonetheless, eight days later, after a meeting with two of the Huths partners, Lewis Huth Walters and Louis Meinertzhagen, Norman noted: “New firm intends to take over fur business thro separate Ld Cos to be set up in Ldn & NY. I say this is a question for New Firm”. His concerns seem to have been alleviated. If the partners of Huths wanted to continue in the fur trade, Norman did not intend to interfere. Later in October 1926 one of the König brothers, who were now partners in Huths, approached Norman for financing for Huths through the BoE for a shipment of Russian furs. Norman refused, recording in his diary “we neither finance mer^- (furs) or Russian business”. He further recorded that Huths already had a gross amount of £600,000 tied up in Russian furs, noting “this is enough on one commod^ to one Debtor!”—the Governor’s concerns

| April 19 | Section 1 | Silver, blue, cross and other foxes | Frederick Huth & Co., C. M. Lampson & Co., and Anning & Cobb. |
| April 21 | Section 2 | Fine furs, such as beaver, otter, lynx, etc. | C. M. Lampson & Co. and Frederick Huth & Co. |
| April 25 | Section 3 | Skunk, civet cat | C. M. Lampson & Co. and Frederick Huth & Co. |
| Section 4 | Opossum | Anning & Cobb, C. M. Lampson & Co. and Frederick Huth & Co. |
| April 23 | Sections 5 and 6 | Muskrat and raccoon | C. M. Lampson & Co. and Frederick Huth & Co. |
| Section 7 | Mink | Frederick Huth & Co. and C. M. Lampson & Co. |
| Section 8 | Squirrel, Kolinsky, fitch, marmot, moufflon, etc. | Anning & Cobb, Frederick Huth & Co. and C. M. Lampson & Co. |
| Section 9 | Wolf and bear | Frederick Huth & Co. and C. M. Lampson & Co. |
| April 28 | Section 10 | Wild cat, house cat, badger, mole, nutria, lamb, etc. | C. M. Lampson & Co., Culverwell, Dyster, Nalder & Co., Anning & Cobb and Frederick Huth & Co. |
| Section 11 | Dyed skins | Anning & Cobb, C. M. Lampson & Co. and Frederick Huth & Co. |

Table 10.2  London’s order of sale for the fur trade in April 1921

Source Author’s table based on information in *Fur Trade Review*, Vol. 48 (March 1921), p. 201
clearly had returned.\(^{100}\) Despite the BoE’s financial support, Huth’s burden of debt would ultimately result in its demise. The firm was acquired by the British Overseas Bank in 1936.

Obtaining direct evidence of the activities of some of these now defunct firms is difficult as the archival records left by them are fairly sparse, although indirect references can be found in the records of other merchant banks. For instance, the archives of Wallace Brothers contain correspondence related to acceptance finance provided by the small merchant banks Cunliffe Brothers and H. S. Lefevre & Co. Wallace Brothers entered into a ten-year arrangement with Cunliffes in 1913.\(^ {101}\) This facility continued with its successor firm, Goschens & Cunliffe, until its closure in 1940. Wallace Brothers acknowledged the “friendly relationship which has existed between us for more than 50 years”.\(^ {102}\) Similarly, arrangements were made with Lefevres in 1922 that were to continue until at least 1930.\(^ {103}\) A document in the Guinness Mahon archives written in 1949 refers, however, to the demise of “Many of the firms who have dealt in commodities only have gone out of business (Huth, Goschen, Lefevre, etc.)”. The context of this observation is important. It was made with reference to “Small transaction in minor commodities” as oppose to “bulk commodities”. It was not meant to suggest that these firms did nothing other than deal in commodities, rather that they dealt in minor commodities only. Guinness Mahon did not want to continue dealing in minor commodities as it did “not see a bright future for business in a wide range of commodities”; instead it planned to concentrate on bulk commodities.\(^ {104}\) The document implies that Goschens, Lefevre and Huths dealt in minor commodities, which was low margin business, in addition to their dwindling banking businesses. These firms struggled to survive on such marginal business, eking out an existence, but eventually failing.

The fragmentary records left behind by Goschens confirm this view. In 1918, Goschens arranged sales of morphine and codeine.\(^ {105}\) Various letters in 1924, including one to the High Commissioner of India, dealt with the sale of medical opium with Goschens shipping fifty chests from Bombay to London for a commission 1½%.\(^ {106}\) The nature of their dealings in the 1930s, such as whether they acted as agents or principals, is not entirely clear, but insurance was arranged by the firm for shipments. Extracts from the surviving records are shown in Table 10.3. These records show the firm’s continuing involvement in trade.
Arthur H. Brandt & Co., a founder member of the AHC, also faced difficulties settling its pre-war liabilities. In August 1922, the firm still owed the BoE £104,000. By August 1927, the firm’s debts were reduced to £1065. Meanwhile, a new unlimited company bearing the same name was incorporated on 8 November 1924 in an attempt to rescue the business. The principal shareholder was the London & Foreign Banking Corporation. The new venture failed in 1930, but its remaining records show little evidence of a banking business, although its ledgers show numerous transactions involving the Arctic Trading Company. The firm collected proceeds of shipments from this company and paid freight, insurance, shipping expenses and delivered goods for it too; there were numerous deliveries to Tate & Lyle for the Arctic Trading Company in December 1930 and the first half of 1931 as the firm was being wound-up. While it is difficult to draw precise conclusions from such a small amount of documentary evidence, the available records suggest that firms like Goschens and Arthur H. Brandt were still largely engaged in mercantile activities, rather than banking, in the 1930s.

Rodocanachi, Sons & Co., a merchant bank better known for its shipping and trading activities, showed that banking could be a higher risk business than merchanting, especially in the absence of tight controls. This firm had expanded its acceptance business in the interwar period, but this decision ultimately led to its failure. The firm suspended payment in November 1929 with debts amounting to £516,000 of which £428,000 were for acceptances; it had assets of only £42,000. One of

### Table 10.3 Insurance policies opened by Goschens & Cunliffe for trade shipments

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 December 1929</td>
<td>£6000 shipment from Brazil</td>
</tr>
<tr>
<td>31 October 1930</td>
<td>£3000 shipment of tobacco, cigars, hides, coffee, etc. from Columbia</td>
</tr>
<tr>
<td>5 November 1930</td>
<td>£20,000 wool shipment from South Africa</td>
</tr>
<tr>
<td>6 March 1934</td>
<td>£10,000 carpets or rugs shipment</td>
</tr>
<tr>
<td>1 January 1935</td>
<td>500,000 Dutch Guilders for wool, woolskins or wooloffals by steamer from Australia, New Zealand, South Africa or South America</td>
</tr>
<tr>
<td>23 July 1937</td>
<td>£10,000 fire risk on sawn timber in government warehouse in Brazil</td>
</tr>
<tr>
<td>1 January 1938</td>
<td>£30,000 cotton shipment from west coast of South America</td>
</tr>
<tr>
<td>1 January 1938</td>
<td>£50,000 shipment from Costa Rica to Europe or USA of coffee, cocoa, sugar, honey, shell, rubber, etc.</td>
</tr>
</tbody>
</table>
the partners, D. M. Copsides, was believed to be responsible for the downfall of the firm; he committed suicide in mid-December 1929. In this case, the attempt to move from mercantile activities to banking had proved to be disastrous.

Some firms quietly faded away. In November 1924, after a meeting with the investment banker, Oswald Toynbee Falk, Norman recorded in his diary “I shd quite approve fresh capital & good management for Chalmers Guthrie & Co. so as to make them into first class accepting house”. Norman and Falk had high hopes for this firm, a merchant bank that had been established in about 1820. In 1926, Chalmers & Guthrie (Merchants) Ltd. was formed to acquire the firm’s merchanting business. The original firm retained over half of the capital. Unfortunately, by 1934 the merchant firm was wound-up voluntarily. The banking firm did not become a first-class accepting house, but a new company was formed with the same name that became a moderately successful issuing house of which Falk became a director. This company was put into receivership in 1932 by the Westminster Bank Limited under a debenture trust deed that had been issued for £25,000. A year later the firm had repaid its indebtedness and had come out of receivership. In 1938, the company was finally dissolved.

The choices made by Chalmers Guthrie, rather than their outcome, show that in the interwar period mercantile activity was still regarded as important by this merchant bank. Unlike some of the other firms such as Pintos, Huths and Goschens, it had not been forced to remain in merchanting by circumstances. It is therefore important to consider those merchant banks that opted for a combined banking and merchanting model, particularly the strategies they adopted to survive. Pintos, Huths, Goschens and Arthur H. Brandt may have focused on mercantile activities because of their lack of creditworthiness, having never fully recovered from their pre-war debts. Contrary to the view that pure finance was a natural progression for a merchant bank, these firms opted for less-risky mercantile activities, but were eventually unsuccessful for a combination of reasons, including poor financial controls. Weak financial controls were the cause of the bankruptcy of Rodocanachis, whereas Chalmers Guthrie’s mercantile activities seemed to decline because of a lack of business. However, some merchant banks managed to survive, and even prosper, combining mercantile and banking activities throughout the interwar period and beyond. What distinguished these firms from those that failed, enabling them to succeed in these tough economic conditions?
Commodity Trading and Finance

As mentioned earlier, merchant banks and smaller merchanting houses generally could not compete with the large multinational specialists, sometimes state-backed, in dealing in strategically important commodities. However, a number of firms continued to trade and finance other commodities such as tea, coffee, cotton and timber. In addition, some commodities such as furs, hides, jute, sisal and tinned fish were in great demand in the early twentieth century.

In the case of Sale & Co. the archival records that have been found suggest that this firm simply eked out a meagre living from its mercantile activities, but this conclusion may be incorrect. The firm was originally a merchant bank specialising in Japanese trade. Its principal partner was Charles V. Sale. He was appointed the governor of the Hudson’s Bay Company in 1915. During the First World War, Sale & Co. made large profits by chartering ships and purchasing supplies on behalf of Allied Governments. This business continued until 1921, including dealing for the Hudson’s Bay Company. In 1930, these dealings helped precipitate a special committee of inquiry, which considered, among other matters, the relationship between the governor, his firm and the Hudson’s Bay Company. In its report on the committee’s findings, *The Times* stated that “certain contracts were entered into by the company with Mr. Sale or his firm, under which they received the usual commissions and brokerages”. Unfortunately, these contracts were not submitted for prior approval by the principals of the Hudson’s Bay Company, leading to suggestions of impropriety. However, according to *The Times*, the contracts “resulted in very large profits being made by the company [Hudson's Bay Company], and the arrangements as a whole appear to the committee to have been justified by results”. Although the committee found “no want of good faith”, it supported changes in the way the company’s business would be run in future. The governor, C. V. Sale, disagreed with these changes and consequently resigned. What happened to his firm?

Unfortunately, hardly any archival evidence has been found in respect of Sale & Co. Some of its correspondence has been found in the records of the Hudson’s Bay Company held at the National Archives. Viewed in the absence of any other information, these records paint a rather pathetic picture. Sale & Co. seems to be proposing various disconnected opportunities to the Development Department of the Hudson’s Bay Company, presumably in the hope of generating some introductory
commission. Extracts are shown in Table 10.4. This would have been happening at the time when C. V. Sale was still the governor. However, work by business archivist Anne Morton may provide an alternative perspective. At the Archives of Manitoba in Canada, she has examined the records of the Hudson’s Bay Company’s Development Department between 1925 and 1931, and of its Fish and Fish Products Department between 1925 and 1940. The commodities and products handled were wide-ranging, including bears, berries, coal, cod livers, herrings, horsehair, laboratory equipment, seashells and seal skins. The Development Department was effectively the research and development arm of the company, which Morton described as “a generator of new ideas, a think tank”.\textsuperscript{118} Seen in this context, the fragmentary records of Sale & Co. held at the National Archives seem less like desperate proposals, but interesting commercial opportunities. So, what did happen to Sale & Co?

F. G. Sale & Sons was another merchant bank run by the Sale family. It was operated until 1921 by Frederick George Sale, advertising itself as “Merchant Bankers” and “Dealers in Japanese Government and Municipal Bonds”.\textsuperscript{119} Since between 1922 and 1928 the firm was not included in the Bankers’ Returns, it must have ceased trading.\textsuperscript{120} In 1933, it went into voluntary liquidation; at that time, it was under the chairmanship of Alfred V. Sale. However, Sale & Co. survived and seems to have thrived to the extent that it had premises in Southwark by 1938 in addition to its office in the City.\textsuperscript{121} These premises were almost certainly warehouses, which indicate that Sale & Co. remained engaged in mercantile activities at least until the end of the interwar period, unlike its associate F. G. Sale & Sons, which seems to have been purely a financial business. Whether Sale & Co. was successful is difficult to judge, but parallels may be drawn with the British merchant house of Dodwell & Co., which operated successfully in Japan during the interwar period.\textsuperscript{122}

Table 10.4  Correspondence from Sale & Co. to the Hudson’s Bay Co., 1928–1929

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 April 1928</td>
<td>Introduction of firm in Greece in connection with Tinned Salmon</td>
</tr>
<tr>
<td>9 April 1928</td>
<td>New process for manufacturing Sodium Hypo-Chlorite of value in refrigeration of vessels</td>
</tr>
<tr>
<td>25 June 1929</td>
<td>Purchase of manufacturing rights for newspaper automats in Canada</td>
</tr>
<tr>
<td>9 October 1929</td>
<td>In connection with F. Ueda &amp; Co of Osaka about dealing in furs</td>
</tr>
</tbody>
</table>

Source: TNA, BH1/2715, Hudson’s Bay company, development department correspondence, April 1928–July 1930
C. V. Sale died on 22 June 1943. His son George Sheavyn Sale became the sole partner of the firm, which remained in business until 1965 when it failed owing the not insubstantial amount of nearly £4m to mainly Japanese banks. This circumstantial evidence suggests that Sale & Co. continued in business undertaking mercantile activities throughout the interwar period and was still engaged as a merchant bank by the 1960s. The firm is now largely lost to history, but its story seems to be one of survival throughout the interwar period by combining banking and merchanting.

Arbuthnot Latham, which was established in 1833 and was a founder member of the AHC in 1914, also successfully combined commodity trading and finance. The firm was originally closely connected with the Ceylon tea trade. It later became involved in other primary commodities, including rubber, sugar, coffee and sisal. It traded these commodities as well as providing financing. In the early 1920s, the firm became actively engaged in financing coffee and sisal crops in Kenya and Tanganyika as well as a leading role in the entrepôt trade for the sale of coffee to Europe from Costa Rica and Nicaragua. The firm pulled out of West African sugar trade in the early 1920s, and although it avoided becoming involved in Jamaican sugar trade, the firm underwrote the formation of the Mortgage Company of Jamaica in 1922, which involved Lindo Brothers and three other Jamaican companies. Also in the 1920s, the firm became involved for the first time in the Nicaraguan coffee trade, including advancing credit to local coffee growers. During the interwar period, the firm made a positive effort to develop in new areas. For example, it worked with the colonial administration in British Honduras in the timber trade, especially mahogany and cedar. However, its most significant new ventures were in East Africa in sisal and coffee. Sisal is now a forgotten commodity, but in the interwar period it was one of great importance as a hard fibre used especially in the making of ropes. Arbuthnot Latham as well as the merchant banks Ralli Brothers and John K. Gilliat & Co., which was acquired by Arbuthnot Latham in 1944, were major sisal merchants in the East African trade.

The worldwide depression in the 1930s caused a dramatic drop in commodity prices, but in the case of Arbuthnot Latham this situation led to it becoming more closely involved in production. In 1931, it offered to write-off a third of the £30,000 owed by a major estate company, United Sisal Estates, but the company collapsed before this could be arranged. It was virtually impossible to find a buyer for the estates,
so Arbuthnot Latham took them in lieu of debts, but to limit its exposure in the region it decided to stop making anticipatory advances against coffee crops in East Africa as these proved too risky. Another less well-known merchant bank, T. H. Allan & Co., also dealt in coffee and general produce in East Africa through a non-exclusive agency C. C. Monckton & Co. This firm had operated as coffee importers since 1874, boasting in an advertisement in *The Times* in 1928 that it provided “Liberal advances against consignments”. By 1932, probably as a result of its liberal advances, the firm was declared bankrupt.

In these difficult markets, financial prudence and strong management were vital to survival. As noted earlier, after Antony Gibbs had faced near ruin in the nitrate trade in South America it refocused its business in Australia under the existing partnership of Gibbs Bright & Co. In 1926, the Baron Aldenham, senior partner in Antony Gibbs, wrote to his nephew Maurice Gibbs to inform him that he was to be offered a full partnership in Gibbs Bright. However, within three years he notified him: “We are all exceedingly sorry that you are no longer to be one of the Australian partners but I really think that it will be more in your interest that you should find some other work”. Clearly Maurice was not cut out for the work. Aldenham wrote to his sister-in-law, Alice, as follows:

[I] am sorry to say that he has not the [illegible] that would enable him to rise to a high position in G.B. & Co and that being the case it would be better that he should resign now before he gets too old to find other occupation.

This was fairly blunt advice with no room for nepotism; the effective management of the firm was paramount. Maurice left the firm. Much later, in 1940, he became an officer in the Australian Ordnance Corps, and in 1947 became a Captain.

The precarious world of commodity trading and financing during the interwar period can be further illustrated. The growth of American competition in South America had direct consequences for those British merchant banks with close connections to US banking firms. One such example was Brown Shipley, which until 1918 had an interlocking partnership with the American firm Brown Brothers. While the partnership ties were dissolved in 1918 because of problem arising from war taxation in both Britain and the USA, the firms remained close, acting as correspondents and agents for each other.
Brown Brothers was one of the shareholders in the Mercantile Bank of the Americas. It was established in 1915 by a collection of American banks, including J. P. Morgan, Brown Brothers, J. & W. Seligman and W. R. Grace; each of which had associated British merchant banking firms. In June 1921, Brown Brothers reported to its British associate, Brown Shipley, that the Mercantile Bank was experiencing problems because of a worldwide trade depression as well as abnormal exchange rates in Latin America, which were “coupled with the very severe decline in all kinds of merchandise, such as sugar, coffee, cocoa, etc.” The general view was that the bank and its affiliated banks were “in good shape”, but its three trading companies—the China–India Trading Company, the Mercantile Overseas Corporation and Messrs. Hard & Rand—faced losses in excess of $10m based on commodities at current prices. Consequently, the stockholders of the Mercantile Bank subscribed $20m of new capital of which “roughly 8%” was provided by Brown Brothers. In addition, a syndicate of banks had confidentially provided a credit facility for a further $35m.\textsuperscript{140}

In June 1921, Brown Brothers advised Brown Shipley to “have no uneasiness” about its exposure to Messrs. Hard & Rand, even though this trading company carried about 200,000 bags of coffee, which would result in a loss of about half of its capital on realisation as coffee prices had dropped from 20\textcent{} to 5\textcent{}.\textsuperscript{141} Brown Shipley did not share the optimism of its American associate. While politely acknowledging the information provided about Messrs. Hard & Rand, James Leigh Wood, a partner in Brown Shipley, replied providing market information that indicated “that an improvement in the price of Coffee will be a somewhat slow process”. He mentioned that in the previous week Brown Shipley “were approached by Messrs. Samuel Montague [sic] & Co. to accept a participation in a Credit for £2,000,000 secured upon Coffee shipped from Brazil”, which he understood was “in a large part already lying at Hamburg and Havre”. Furthermore,

in addition to this Coffee there is a further transaction entered into by Messrs. Schroeders on behalf of the State of San Paulo, and there are other heavy lines of the berry awaiting absorption at Continental Ports.

This correspondence shows the extent to which other British merchant banks were exposed to the coffee market.\textsuperscript{142}
Brown Shipley’s caution proved well-founded. In late August 1921, Brown Brothers had sent cables to the Mercantile Bank’s South American affiliates to notify them that “Brown Shipley & Company have cancelled all London credit facilities”. Shortly afterwards, *The Times* reported that “well-informed financial circles in New York” claimed that the Mercantile Bank of the Americas had outstanding acceptances that would require “a relief fund of close on $100,000,000, though this figure must be regarded as an unofficial estimate”. A year later, the Mercantile Bank went into liquidation. Some of its interests were acquired by the newly created Bank of Central and South America owned by the previous shareholders, but this bank was later acquired by the Royal Bank of Canada.

In 1922, Brown Brothers and Brown Shipley as well as Morgan Grenfell were adversely affected by another failure. The New York-based merchant, Childs and Joseph, failed with liabilities of over $9m. *The Times* described it as “one of the most serious commercial incidents for many years”. These losses must have had an impact on the capital of these firms. The ability to sustain such large losses required a large capital base. It seems clear that Brown Brothers struggled in these circumstances. The firm’s lack of capital to absorb these losses would eventually result in a loss of independence.

In a notebook maintained by Morgan Grenfell over several decades, there are entries about Brown Brothers and Brown Shipley. The entry for Brown Brothers in December 1930 stated that in a general period of Banking trouble BB&Co much talked about. They were found to be liquid & sound but somewhat short of capital. Accordingly, an amalgamation with Harriman who were rich.

On 1 January 1931, Brown Brothers merged with Harriman Brothers & Co. and W. A. Harriman & Co. However, Brown Shipley has survived to the present day as an independent firm, which can in no small part be because of its cautious approach.

Grace Brothers, the merchant banking affiliate of the American bank W. R. Grace did not fare so well. W. R. Grace’s involvement in the Mercantile Banks’s financing almost certainly was a consideration when its own creditworthiness was discussed at meeting of bankers in New York in November 1920. A private cable was received by
Morgan Grenfell from J. P. Morgan, which stated that rumours about W. R. Grace were untrue and the firm was “very strong”, but a note was recorded at Morgan Grenfell that there were “all sorts of rumours owing to the fall in produce”. By 1922, W. R. Grace faced problems in another quarter—it had to close its Indian business “after heavy loss”. By 1936 Grace Brothers, the London-based firm had “ceased to function”. Was this firm yet another casualty of the global depression or of its own lack of financial prudence?

Merchant banks not only financed the mercantile activities of their customers, but also undertook trading and speculation on their own account. While the risks associated with the creditworthiness of customers were part of being a banker, the risks of own-account trading, especially in trade-related derivatives, were of a different order. In May 1921, James Brown of Brown Brothers in New York wrote to Edward Clifton Brown, partner in Brown Shipley, warning against the firm’s exposure to futures contracts in commodities. He wrote that “it was not our intention that we should go out of the business of buying and selling futures entirely but only that it should be curtailed”. He believed that the “legitimate basis of future contracts is the movement of merchandise”, so bankers should use futures to help customers manage their future commitments. However, the decline in commodity trading had not been accompanied by a decrease in the firm’s futures contracts. He felt therefore that the firm was increasingly trading on its own account, stating that “dealing in futures not based on movement in merchandise strikes us as merely a matching of brains between bankers and therefore verging on speculation.”

The year before, similar advice had been given by the senior partner of Balfour Williamson, Archibald Williamson, later Lord Forres, to his partner in New York, Alexander Torrance. He wrote about the mishandling of the firm’s wool business, noting that it is easy to make money in rising markets, but “some of us remember the difficulties of trading in declining markets”. He added that he was

a little uneasy with regard to the amount of dealing as contrasted with merchandising or importing which you have been doing. I do not say that buying in your own market for re-sale is not legitimate, but it is not the main occupation of merchants, nor has it been the genus of our business in the past.
He further remarked on the amount of “speculative” dealing in rubber and tin, regarding “such operations with apprehension, and I feel that in the times in front of us when we may expect declining prices of many commodities, there is an added danger of going too far in that direction”.  

The extreme caution exercised by some of the merchant banks and their associated merchant houses can be demonstrated by records in the archives of Yule Catto. In 1920, Morgan Grenfell agreed to acquire the Calcutta-based merchant house of Andrew Yule and Company and its London agent, George Yule and Company, which later became Yule Catto and Company Limited. In 1926, the export department of Andrew Yule sought instructions concerning a letter of credit issued by Messrs. Mosseri & Co., an Egyptian bank, for a local merchant house Mosseri Curiel & Co., which want to trade with Yules. Enquiries were made with Morgan Grenfell. Positive reports were received in return, including “Messrs. M. Samuel & Co. report very highly upon [them]” and “[a]s their drafts are on Messrs. Samuel, Rothschild and Seligman there is, of course, no risk in dealing with them so long as documents are attached to the drafts”. Despite these assurances, it was decided to decline the business as there was a small risk that negotiable bills of lading might be received in Egypt before the drafts were accepted in London, which presented the risk of giving the purchasers possession of the goods before security had been granted regarding payment. Morgan Grenfell and Yules choose to avoid the risk even at the cost of losing the business; their prudence would have helped ensure their survival in difficult times.

The survival throughout the interwar period and beyond of firms such as Arbuthnot Latham, Antony Gibbs, Brown Shipley and Balfour Williamson that combined mercantile and banking activities is a testament to their adaptability and, above all, their financial prudence. Examples have been given of their avoidance of speculative activities and utmost caution in their financial affairs. These firms were also willing to take tough decisions where necessary such as the removal of an incompetent relative or the cessation of a business relationship to avoid risks. What else contributed to the survival of some firms during these difficult times?
INVESTMENT GROUPS AND FREE-STANDING COMPANIES

One successful strategy adopted by merchant firms was diversification through the formation of investment groups. Some firms operated as both merchants and bankers, but also made fixed asset investments. Investment groups emerged particularly in South America and in the Far East and often included merchant banking as part of their portfolio of businesses. Chapman defined an investment group as

an entrepreneurial or family concern whose name and reputation was used to float a variety of subsidiary trading, manufacturing, mining or financial enterprises, invariably overseas and often widely dispersed.

He argued that investment groups arose from the diversification and redeployment of mercantile capital. While such developments were mainly driven by competitive forces and new opportunities, it was not uncommon for assets to be acquired from defaulting debtors. The example of Arbuthnot Latham has already been given in respect of the East African sisal industry in the 1930s, but by the late 1880s this firm had already taken control of tea plantations in Ceylon in lieu of the debts. The Consolidated Estates Company was formed as an umbrella company to own these estates and provide general management while the existing planters were offered tenancies to run the estates on a day-to-day basis.

There was precedent for merchant banks making fixed asset investment when suitable opportunities arose, such as in the 1850s when Barings, Rothschilds and Huths had considerable amounts of capital locked up in ironworks involved in rail production. However, generally merchant banks preferred to provide services rather than investing their own capital. Fixed assets investments ran counter to their mercantile mentality. One way of avoiding having capital locked up was the creation of free-standing companies. These companies tended to be owned by a broad collection of shareholders but were managed and therefore controlled by merchant firms. Two merchant banks that used such free-standing companies to extend their influence were Balfour Williamson in the Americas and Thomas Barlow & Brother in the Far East.

Balfour Williamson was instrumental in the formation of The Santa Rosa Milling Company Limited in 1913. It was engaged in milling flour, rolled oats, pearl barley and barley flour. The directors of the company
were mainly associated with Balfour Williamson, including the senior partner, Lord Forres, who was the company’s chairman. The firm also extended its reach into North America with the interlocking partnership of Balfour Guthrie, which operated in the oil business and various other commodities. In 1935, Crown Flour Mills Limited acquired Crown Mills, an American company controlled by the firm, becoming one of the largest flour mill businesses in the North-West of the USA. The firm retained a significant interest in the new company.\(^{159}\) Balfour Williamson continued as a merchant bank with wide-ranging interests until it was acquired in 1960 by BOLSA.\(^{160}\)

In the Far East, a similar path was followed by Thomas Barlow & Brother. In the nineteenth century, this firm used its Calcutta agency to finance tea estates in Ceylon and Assam. Its Singapore agency made similar moves in the financing of Malayan coffee plantations. When in the late 1890s there was a slump in prices, the firm extended its loans and allowed plantations to shift to the cultivation of rubber. The firm floated the Highlands & Lowlands Papa Rubber Company in 1906 followed by a series of smaller companies later. These companies were controlled by the Barlow family. The partnership of Thomas Barlow & Brother undertook the roles of company secretaries and selling agents in London; Barlow & Co., acted as managing agents locally.\(^{161}\) In 1965, the firm merged with one of its rivals, Bousteads.

**Conclusion**

The aim of this chapter was to examine the mercantile activities of the merchant banks in the interwar period. Were these firms following an inexorable path towards a purely financial role with their mercantile activities being merely the remnants of a bygone age? The situation has been shown as far more complicated. A complex set of circumstances usually dictated the choices made by firms; they did not simply follow a predestined path. The options available to merchant banking firms were often dictated by competition from other banks in the regions in which they operated or by strategic importance of the commodities in which they chose to specialise.

The merchant banks primarily focused on business in the Far East and South America usually followed a different development path to those firms whose business was concentrated in Europe and North America. The former firms were more likely to retain mercantile activities rather
than move to purely financial activities. One of the key contributory factors to this different development was the role undertaken by British overseas banks and, in the Far East, exchange banks. The local merchant houses had a symbiotic relationship with these regional banks that encouraged broader-based merchant banking businesses.

The path to combining mercantile and banking operations successfully was not always a smooth one. Some commodities such as oil and nitrates became strategically important during the interwar period, attracting large, well-financed multinational corporations sometimes with state-backing. The smaller merchant houses were squeezed out of these trades. However, many firms concentrated on other commodities such as coffee, tea, sisal, furs and timber.

The experiences of these mercantile firms were quite unique, but certain themes have been identified. Those firms that failed usually did so because of an inability to manage their liabilities, rather than because of a lack of business. Pre-war acceptance liabilities proved an ongoing burden for some firms such as Huths and Goschens, whereas others failed through weak financial management such as Pintos and Rodocanachis. These firms often sought to grow their mercantile businesses as either banking was no longer feasible or was viewed as too high risk. Successful firms usually demonstrated tough management and financial prudence as core disciplines in the manner in which they ran their businesses.

Some merchant banks became the heart of large investment groups, controlling a huge range of activities in various commodities. Firms such as Arbuthnot Latham and Balfour Williamson are examples. While there are examples of firms that concentrated on purely financial activities, there are also numerous examples of those that chose not to do so.

The mercantile roots of many merchant banks ran deep and provided an essential backbone supporting their better-known banking and financing activities. Maintenance of these long-established, deep-seated roots enabled a number of merchant banks to survive successfully into the late twentieth century by adapting their business models to the tough environment of the interwar period. It also has demonstrated that it was not inevitable for merchant banks to move from mercantile activities to pure finance. The heterogeneity of the merchant banking sector persisted throughout the interwar period and beyond.

During the interwar period, merchant banks such as Wallace Brothers and Mathesons had become more inwardly focused, concentrating more on servicing the international trading groups of which they were
affiliated. However, firms such as Arbuthnot Latham, Balfour Williamson and Thomas Barlow controlled enormous swathes of commodity production, distribution and trading, but still retained strong external merchant banking businesses. The historiography has largely overlooked these mercantile groups based around strong merchant banking businesses or else have treated them as trading groups, failing to recognise that merchant banking was at the heart of these groups.

Notes

1. The Times, 9 November 1927.
10. Although N. M. Rothschild & Sons were originally involved in the textile trade in Manchester, by 1820 they were almost totally specialised in finance. However, over the rest of the nineteenth century they were engaged in commodity trading, insurance, and also took large equity stakes in mining firms such as De Beers and Rio Tinto. See: Chapman, Merchant Banking (1992), pp. 17–25, and Jones, Merchants to Multinationals (2000), p. 23.


15. Email from Julie Streader, Assistant to Henry Angest, Chairman of Arbuthnot Banking Group, 7 July 2014.


21. Frank H. H. King, *The Hongkong Bank Between the Wars and the Bank Interned, 1919–1945: Return from Grandeur* (Cambridge, 1988), Table 1.6, p. 47; Table 4.18, p. 218.


41. LMA, Morgan Grenfell, CLC/B/163/Ms29551, Thomas Catto’s correspondence, 1926–1928, Agreement with Anglo-American Corp. et al., 6 May 1926.
42. MLM, Records of Morgan Firms, Box 5, Folder 18, Correspondence: E. C. Grenfell 1930, Letter to Jack Morgan, 12 December 1930.
43. La Société Commerciale et Industrielle de Napthe Caspienne et de la Mer Noire, commonly known as BNITO from its name in Russian.


49. APOC would become the British Petroleum Company in 1954.


54. BoE, ADM34/9, Norman’s Diaries, 22, 29 December 1920.

55. MLM, Records of Morgan Firms, Box 5, Correspondence: E. C. Grenfell, 1917–1938, Folder 5, Letter to Jack Morgan, 1 June 1921.


57. BoE, ADM33/20, R. S. Sayers’ papers, Research papers by Bank staff, No. 60: Bank Amalgamations and Salvage/Rescue Operations—Individual Cases’, 1972–1974, Antony Gibbs & Sons. In the same year, 1923, Herbert Gibbs was raised to the peerage as Baron Hunsdon.


60. MLM, Records of Morgan Firms, Box 4, Correspondence: J. P. Morgan & Co., 1913–1946, Folder 3, Letter to Morgan Grenfell, 7 July 1921.

61. MLM, Records of Morgan Firms, Box 5, Folder 5, Correspondence: E. C. Grenfell 1921, Letter from Jack Morgan, 15 July 1921.


66. LMA, Morgan Grenfell, CLC/B/163/Ms21799, Volume entitled ‘extracts of correspondence, etc.’, 1885–1936, p. 131.

68. LMA, AHC, CLC/B/003/MS29295/4, Minutes of Meetings, 1937–1946, 12 December 1946.


71. *The Times*, 22 October 1926.

72. LMA, Guinness Mahon, CLC/B/108/Ms38604, Correspondence concerning Wogau & Co., Memorandum entitled ‘W. & Co.’, 27 April 1939.


80. LMA, Standard Chartered Bank (hereafter SCB), CLC/B/207/Ms40116, Correspondence relating to credit facilities from the National Bank of Scotland for Wallace Brothers, 1870–1940, 30 October 1914.

81. LMA, SCB, CLC/B/207/Ms40117, Scrapbook of correspondence about credit facilities for Wallace Brothers, 1911–1967.

82. LMA, SCB, CLC/B/207/Ms40162, Correspondence with timber brokers.

83. LMA, SCB, CLC/B/207/Ms40135, Correspondence relating to Wallace Brothers role as agent in the Far East.

84. LMA, SCB, CLC/B/207/Ms40122, Papers relating to Wallace Brothers’ liability on foreign bills at the outbreak of the First World War, Letter to Foreign Claims Office plus supporting statements, 14 September 1915.

85. LMA, SCB, CLC/B/207/Ms40106, Register of foreign bills receivable.


87. *The Times*, 4 September, 10 April 1926.

88. *The Times*, 21 April, 6 May 1931.

89. LMA, Ralli Brothers, CLC/B/186/Ms23836, Historical material on the company, 1902–1952, Notes by Arthur Mills, 16 September 1969.


91. BoE, ADM34/11, Norman’s Diaries, 4 August 1922.

92. TNA, T160/998, Advances on pre-Moratorium Bills, Arrangements after 31 August 1922, Letter from Harvey to Treasury, 23 July 1924.

93. *The Times*, 16 March 1926, 10 April 1926.
94. Kavanagh, *Knowles & Foster* (1948), p. 86. Goodwill is the different between the consideration paid and the net assets acquired. It represents the intangible value of a firm.


96. TNA, T160/998, Letter to Bank from Niemeyer, 6 September 1922.


99. BoE, ADM34/12, Norman’s Diaries, 22 and 30 May 1923.

100. BoE, ADM34/15, Norman’s Diaries, 1 October 1926.

101. LMA, SCB, CLC/B/207/Ms40117, Scrapbook of correspondence about credit facilities for Wallace Brothers, 1911–1967, Memorandum re:Cunliffe finance, c.April 1913.

102. LMA, SCB, CLC/B/207/Ms40117, Credit facilities for Wallace Brothers, 1911–1967, Letter to Goschens & Cunliffe, 10 January 1941.

103. LMA, SCB, CLC/B/207/Ms40117, Credit facilities for Wallace Brothers, 1911–1967, Letter to H. S. Lefevre, 28 June 1922. My emphasis.


107. TNA, T160/998, Letter from Niemeyer to Bank, 6 September 1922.


111. BoE, ADM34/13, Norman’s Diaries, 14 November 1923.

112. TNA, BT 31/35377/215662, Companies Registration Office, Dissolved Companies, Chalmers and Guthrie (Merchants) Limited.

113. TNA, BT 31/32893/227329, Chalmers Guthrie & Co Ltd., Notice of Appointment of Receiver and Manager, 28 October 1932.

114. TNA, BT 31/32893/227329, Declaration Verifying Satisfaction of Charge, 21 November 1933.

115. TNA, BT 31/32893/227329, Notice, 24 May 1938.


119. The Times, 28 January 1921.
120. London Gazette, 26 February 1917, and subsequent supplements that include the Bankers’ Returns.
121. London Gazette, 18 February 1938.
123. The Times, 29 June.
124. The Times, 10 August, 29 September 1965.
125. The Times, 3 August 1960.
132. The Times, 13 March 1928.
133. The London Gazette, 1 November 1932.
137. In the mid-nineteenth century, Antony Gibbs & Sons had been prepared to bring in non-family partners into the firm in the absence of suitable family members. See: Martin Daunton, ‘Inheritance and Succession in the City of London in the Nineteenth Century’, Business History, Vol. 30, No. 3 (July 1988), pp. 277–278.
139. The Times, 1 January 1918.
141. LMA, Brown Shipley, CLC/B/032/Ms20105/009, From Brown Brothers, New York, 3 June 1921.


144. *The Times*, 27 August 1921.

145. *The Times*, 16 September 1922; 21 February 1925.

146. *The Times*, 8 March 1922.


149. LMA, Morgan Grenfell, CLC/B/163/Ms21799, Volume entitled ‘extracts of correspondence, etc.’, 1885–1936, p. 81.


153. LMA, Morgan Grenfell, CLC/B/163/Ms29550, Letter from Yule Catto to Andrew Yule, 9 September 1926.


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Many traditional merchant banking firms failed during the interwar period, but new firms were also established such as Leopold Joseph & Sons; Philip Hill & Partners; Dawnay Day & Co. and, one of the most influential, S. G. Warburg & Co. During the Second World War, Barings and Schroders had started to develop their investment management businesses, while Hambros had successfully cultivated the return of the inland acceptance.¹ For most firms at this time, however, the main difficulty was simply a lack of business. Accordingly, the Governor of the Bank of England (hereafter BoE), Montagu Norman, tried to broker a merger in 1942 between Schroders, Barings and Rothschilds, but it came to nothing.² Archival records also show that in July 1943 Schroders was in discussions with Guinness Mahon and had asked the Governor’s opinion on a merger. He agreed that Schroders needed help but did not encourage the proposed merger.³ If one of these mergers had taken place, the course of merchant banking might have been quite different.⁴

The themes identified in the interwar merchant banking sector continued to unfold in the second half of the twentieth century, including the choice of business activities, intensifying competition from other financial institutions, inadequate risk management and continuing lax regulatory supervision. Although some of the firms that described themselves as merchant banks continued in business into the late twentieth century, by the end of the millennium the sector had effectively disappeared. The ultimate survivors had transformed their businesses by moving away from risky, capital-intensive activities into advisory services.
especially investment management. The weakness of traditional merchant banking had been exposed during the interwar period. Seemingly oblivious to the lessons of the interwar period, some firms continued to struggle for survival after the Second World War, failing to adapt to changing circumstances. On the other hand, some merchant banks made poor strategic choices or failed to manage the risks associated with their business activities so eventually lost their independence. This endgame took another fifty years to unwind completely, but the criteria for success were defined in the interwar period. Failure to adapt to changes or operating with a risky business model meant the outcome for many firms became fairly inevitable.

**End of Empire**

Those merchant banks that had continued to focus on merchanting activities faced particular difficulties after the Second World War. Just as occurred after the First World War, Britain’s role in global trade had changed significantly. While domestic financial activities still provided a relatively safe haven for some merchant banks, those merchant banks involved in the international economy were to experience a declining role for their traditional merchanting and trade financing services.

There are various examples of how such firms struggled and, in some cases, failed during the decades after the end of the Second World War. By way of illustration, Ralli Brothers will be considered. The firm was originally of Greek origin and focused on the Black Sea grain market. As this trade became fiercely competitive, it realigned its business to focus on India, especially the jute trade. Its Indian business operated for over eighty years, but eventually closed in late 1931. After the Second World War, the firm re-established its business on the Indian subcontinent, creating a separate company called Rallis India Limited. The range of its activities is apparent from a short, handwritten manuscript produced by a retired employee of the firm. He wrote that

By 1951, Ralli Brothers, excluding subsidiaries and associates, had a turnover of £65 million and Ralli India had a turnover of £31.5 million, and its trading included “wool, timber, fertilizers, nitrate, oils, cement, tanning materials, agricultural and other machinery”.5

At its annual general meeting in 1951, it was reported that the devaluation of sterling in 1949 had caused costly increases in its Indian and Pakistani trade. Also, while a new subsidiary, Ralli Estates Limited, had been established in Tanganyika to manage sisal properties, control of Ralli India had to be transferred to local Indian investors.6 By 1958, Ralli Brothers’ commodity businesses were struggling to cover expenses. Its cotton trade was especially badly affected by the Suez Crisis, while profits from the sisal estates in Africa were halved.7 Not surprisingly, in early 1961 Ralli Brothers was taken over. It was acquired by the General Guarantee Corporation owned by the entrepreneur Isaac Wolfson. In 1969, he sold Ralli Brothers to the Slater Walker Group. Ralli’s commodity trading business was merged with Oriental Carpet Manufactures—one of Slater Walker’s investments. Ralli Brothers (Bankers) Limited became Slater Walker Limited. The Slater Walker Group later fell into severe financial difficulties mainly because of debts incurred in the secondary banking crisis in 1973–1975. Having operated for 140 years as a merchant and banker, Ralli Brothers had effectively disappeared.

This brief history of the fate of Ralli Brothers highlights the major challenges faced by such a traditional merchant banking business. The period after the war proved as difficult in many respects as the interwar period for those merchant banks that tried to continue traditional activities. In the immediate decades after the Second World War, there were other well-established merchant banks that either were taken over or simply failed. For instance, in 1960 the merchanting and banking house of Balfour Williamson, which was established in 1851 and had extensive interests in North and South America, lost its independence. It was acquired by the Bank of London and South America, which had been a subsidiary of Lloyds Bank since 1918.8 The lesser-known merchant banks Thomas Barlow & Brother and Blyth, Greene, Jourdain & Co. Limited were acquired by larger mercantile groups.

Since the late nineteenth century, Thomas Barlow & Brother had successfully financed and managed tea, coffee and rubber estates. It floated estate companies while maintaining management control. In 1965, the
firm merged with Bousteads, the British agency house that had extensive rubber interests in Malaysia. By 1979, the combined firm had become an investment holding company, having effectively divested its physical assets due to local Malaysian demands for repatriation of estate assets. Similarly, in 1976 the international trading group John Swire & Sons attempted to diversify its interests by acquiring a 30% interest in the merchant bank Blyth Greene Jourdain, which traded mainly to Mauritius and South Africa, but also had interests in Malaysia. By the 1980s, its interests in Malaysia were lost to state-owned enterprises as foreign-controlled businesses were “localised”.

Other firms that had continued to operate a traditional merchant banking model were to end up insolvent. Knowles & Foster and Sale & Co. both failed in 1965. Knowles & Foster had been founded in London in 1828. Its activities included merchanting, insurance, commodity dealing and shipping finance. It had interests in South America, Portugal, South Africa and Canada. The continuing UK balance of payments deficit and uncertainty about sterling had precipitated withdrawal of deposits of about £1m between July and December 1964, resulting in the firm’s failure with a deficit of £3m. In the same way, the firm Sale & Co., which had been a foreign merchant in Yokohama since 1903, failed because of a credit squeeze in the UK that resulted in an abrupt withdrawal of its credit facilities. It failed with a deficit of £3.8m owed mainly to Japanese banks, including £1.3m to Mitsubishi Bank and about £0.4m to each of the following banks: the Bank of Kobe, Sanwa Bank and Fuji Bank. These were not insubstantial amounts and indicate the scale of its operation.

Some merchant banks, nevertheless, persevered with their mercantile activities. For example, in 1972 Guinness Mahon merged with one of the City’s large commodity traders and merchants, Lewis & Peat. The combined group became known as Guinness Peat. Also, the merchant banks Arbuthnot Latham and Antony Gibbs continued to be involved in merchanting. However, by the 1970s, it was becoming increasingly difficult to succeed as a traditional merchant bank, undertaking merchanting and financing activities. Therefore, most surviving firms started to concentrate on banking, but to do so would mean more resources—greater capital and better management. Merger activity among the merchant banks therefore greatly increased in this period.
**Better Together**

Despite Norman’s failed plan in 1942 to broker a merger between Schroders, Barings and Rothschilds, there were various mergers between merchant banks after the war. A number of these mergers aimed to achieve enhanced strength through combinations. For example, in 1947 Robert Benson & Co. merged with the Lonsdale Investment Trust to become Robert Benson Lonsdale & Co. Ltd., providing the firm with a broader capital base and stronger management. In 1950, Higginson & Co. converted into a limited company and was acquired by Philip Hill Investment Trust, which already owned the merchant bank Philip Hill and Partners. Later in 1959, it acquired the merchant bank Erlangers, which could trace its origins to Paris a hundred years earlier. The combined firm had the cumbersome name of Philip Hill Higginson Erlangers Ltd. Later in 1965, it merged with M Samuel & Co. Ltd. to become Hill Samuel & Co. Ltd.

The period of the late 1950s and early 1960s saw a spate of other mergers by merchant banks. Edward de Stein & Co., which had acquired the finance business of Dawnay Day in 1950, merged with Lazard Brothers in 1960. In 1961, Kleinwort, Sons & Co. merged with Robert Benson Lonsdale & Co. to become Kleinwort Benson Limited, creating a £60m group, that the *Daily Telegraph* described as “one of the largest and best diversified groups in the City”. In 1962, A. Keyser & Co. merged with Ullmann & Co. Limited to become Keyser Ullmann Limited, while Schroders acquired Helbert Wagg—a specialist in new issues for domestic clients—to become J. Henry Schroder Wagg, thereby helping to develop Schroders’ investment advisory business.

These mergers aimed to strengthen the combined firms to enable them to compete in the growing domestic market for corporate reorganisations and investment management. The late 1960s and early 1970s experienced significant growth in consumer finance and especially in lending on property. Many newly created financial institutions were drawn into financing property investment and development. The merchant banks were not immune from the lure of property, but the risks were not properly considered with the inevitable disastrous outcome for some firms.
The late 1960s and early 1970s saw the growth of new banking enterprises—many of which had been established under Section 123 of the Companies Act 1967. These firms were referred to as secondary banks.23 A number of the smaller merchant banks were involved in the same business as these secondary banks, but even some of the larger merchant banks also became involved in property finance. In the property boom of the early 1960s, Hambros and Ralli Brothers both provided bridging finance to property developers.24 However, there was nothing to compare with the audacious proposal made by Hill Samuel in the summer of 1970.

The boards of Hill Samuel and the Metropolitan Estate and Property Corporation (hereafter MEPC) agreed a £200m merger between the companies. The ambitious chairman of Hill Samuel, Sir Kenneth Keith, described it as “a unique springboard to project ourselves in to a new decade”, emphasising a “premium on size” that the merchant banks lacked and which he believed hindered their ability to compete internationally. While these remarks had some prescience as the size of the merchant banks, especially against their global competitors, would be a recurring theme, the deal was widely opposed and a month later it was called off.25

Another merchant bank with big ambitions was Keyser Ullmann. The firm A. Keyser & Co. had a long history. It was established in 1868 by Samuel Montagu, later Lord Swaythling, in addition to the firm Samuel Montagu & Co., in order to provide roles for some of his sons who, by virtue of their numbers, could not all become partner in Montagus.26 Keyser had never been regarded as first rate by the BoE. It therefore had something to prove. In January 1972, Prudential Assurance injected £7½m of new capital into Keyser Ullmann. The Prudential already had a substantial minority interest in the merchant bank Dawnay Day as well as in the finance house United Dominion Trust. No less than £50m of the Prudential’s investment in ordinary shares of £119m—a staggering 42%—was invested in these three companies, which in turn either through direct investment or lending were heavily committed to property.27 Later in the year, Keyser Ullmann merged with Central and District Properties to create a new banking and property group capitalised at £113m. Keyser Ullman had succeeded where Hill Samuel had previously failed. One of its directors stated that “there is a natural affinity between property and merchant banking”.28 Subsequent events would, however, call this statement into serious doubt.
In 1971, the BoE introduced a new policy called Competition and Credit Control. Its aim was to remove some of the restrictions on the banking system in the hope of creating more efficiency and greater competition. Its unintended consequence was an explosion in credit growth and an increase in wholesale money market activity. The clearing banks released funds into the wholesale money markets that were used by secondary banks and finance houses to fund lending primarily to property entrepreneurs. Instead of relying on deposits, the secondary banks tended mostly to fund their activities by short-term borrowings in the wholesale money market but lent longer-term through property mortgage and hire purchase contracts—a serious mismatching of assets and liabilities.29 A number of merchant banks were drawn into this unstable arrangement.

In late 1973, as interest rates began to rise, a severe credit squeeze resulted that initially led to the failure of the secondary banks London & County Securities and Cedar Holdings, which had only six months earlier merged with a property company, Amalgamated Securities. The wholesale money markets dried up and property values plummeted. The contagion spread quickly—the so-called secondary banking crisis was in full swing. To prevent a collapse of confidence in the entire British banking system, the BoE launched a rescue plan—the so-called Lifeboat. There was a flight to quality as funds were withdrawn from secondary banks and placed with the large clearing banks. The Lifeboat helped recycled these funds. Institutional investors also provided funds secured on property holdings to help stabilise the banking system. Inevitably, there were casualties, including some of the merchant banks.

Although Keyser Ullmann had disposed of its holding in Central and District Properties at a profit, it had reinvested the proceeds in other property ventures. It had also acquired the secondary bank Dalton Barton that had a large exposure to property lending. In 1975, Keyser Ullmann made a loss of £61m mainly because of provisions against doubtful debts—80% of which were to the troubled property sector. It received support from the Lifeboat of up to £76m but was eventually acquired by Charterhouse Japhet in May 1980 for £43m—its ambitious plans had come to nothing.30 In 1974, the Prudential’s other merchant banking investment, Dawnay Day, was given an unsecured loan of £10m by the insurance group, but later in 1980, it was sold to Hume Trust, a subsidiary of Rothschild Investment Trust.31
In 1972, Wallace Brothers merged with another merchant bank, E. D. Sassoon Banking, to form Wallace Brothers Sassoon Bank—later renamed Wallace Brothers Bank. Both of these firms had long histories but had been weakened during the interwar period. E. D. Sassoon was established in 1867, separately registering its banking operation in Hong Kong in 1930. Wallace Brothers had started as an East India merchant in 1848 and had been a founder member of the Accepting Houses Committee (hereafter AHC). Not only did Wallace Brothers Bank have its own problems with property lending, but its principal shareholder, the Crown Agents—the quasi-governmental agency for the colonies—had written off £100m as a result of its own involvement in the secondary banking crisis. In December 1976, Standard Chartered Bank agreed to acquire Wallace Brothers Bank for a deferred consideration of not more than £1m based on its net worth in 1982. It is likely that the eventual consideration amounted to nothing. Two more long-established merchant banks lost to posterity.

A newer merchant bank, Leopold Joseph & Sons, which had only been established in 1919, survived the secondary banking crisis by obtaining a capital injection from two West German banks in return for a 25% stake. On the other hand, Wm. Brandt’s Sons was less fortunate despite its establishment pedigree. The firm had been founded in London in 1858, although the Brandt family had operated in London since 1807 as a branch of its Germanic mercantile business. At the time of the crisis, Wm. Brandts was a member of the AHC, having been one of its founding firms. In 1952, it had converted to a limited company, and in 1965, the British Overseas Bank National & Grindlays Bank (later called Grindlays Bank) acquired two-thirds of its equity. In 1975 after Wm. Brandts suffered property losses that wiped out its reserves of £14m, Grindlays decided that it needed to take a firmer hand and as a result Wm. Brandts lost its independence. As a consequence, it left the AHC.

Apart from Wm. Brandts, the eighteen members of the AHC at this time were not directly impacted by the secondary banking crisis to any notable degree. This fortunate outcome might perhaps be attributed to prudent management by these firms, although the fact that no member of the AHC was asked to participate in the Lifeboat indicates that,
despite being regarded as the elite of the City establishment, these firms simply lacked the capital resources to contribute—a case of form over substance. The secondary banking crisis had, once again, exposed poor risk management by many financial institutions, also highlighting that many financial institutions lacked sufficient capital to absorb their losses. Nevertheless, the mystique of the AHC continued, but fundamental shifts were underway in the City.

**Expelled from the Club**

Britain’s declaration of war in 1914 exposed a number of merchant banks to significant liabilities because they had guaranteed bills of exchange especially for businesses that were then in enemy countries. An urgent meeting was convened at the office of Fredk. Huth & Co. on 5 August 1914. At least twelve out of the original twenty-one firms invited were of German origin and had extensive exposures to enemy debtors. This gathering would evolve into the AHC. This fairly inauspicious start hardly heralded the AHC’s later prestigious standing as an elite City trade organisation with exclusive privileges. When Robert Fleming and Co. was invited to join in October 1980, the *Financial Times* described the AHC as “the City of London’s inner sanctum”.38

In 1980, the AHC had 17 firms as members and they enjoyed certain privileges, including being eligible to have their acceptances re-discounted by the BoE. This privilege was in effect a form of guarantee that enabled AHC members to obtain the finest rates in the money markets. In order to avoid any unwanted outside scrutiny, members were also not required to publish accounts and could maintain hidden reserves to smooth results year by year. To be entitled to these privileges, members had to be British-owned and remain independently managed. Membership of the AHC was keenly sought by some firms.

The firm Japhets could trace its origins in London to 1896 but had been severely impacted by the 1931 financial crisis and had struggled thereafter. It was nonetheless a member of the AHC—a prize worth having. In June 1954, it was acquired by the Charterhouse Group, which had its roots in the 1920s in provincial stockbroking.39 The resultant firm of Charterhouse Japhet remained a member of the AHC.40
Like the Charterhouse Group, S. G. Warburg & Co. was a relative newcomer to the City even though it had connections with the family firm in Hamburg that had been founded in 1798. In 1957, Warburgs acquired Seligman Brothers—one of the founder members of the AHC and originally an offshoot of the New York firm of J. & W. Seligman & Co. Warburgs was the rising star of the merchant banking sector, while Seligmans was a shadow of its former self. By means of this acquisition, Warburgs became a member the AHC. The combined firm was referred to officially as S. G. Warburg & Co. (incorporating Seligman Brothers).\textsuperscript{41} Eventually, the Seligmans name was quietly dropped and the firm lost to history.

Hill Samuel was also a member of the AHC. After its abortive merger with MEPC in 1970, it remained on the lookout for another transformational deal. In 1973, a deal was proposed whereby Hill Samuel and Slater Walker Securities, the investment banking group headed by Jim Slater, would merge to create the biggest merchant banking group in the City. The size of the proposed deal meant that it would need to be referred to the Department of Trade and Industry to consider whether it would breach monopolies legislation. According to the \textit{Financial Times}, the BoE had no objection to Hill Samuel as a member of the AHC undertaking this merger. Membership of the AHC’s exclusive City club would have been a major triumph for aggressive newcomer Slater Walker. The deal, however, failed within a matter of weeks with “differences of work-style” of the two principals, Kenneth Keith and Jim Slater, being cited as the reason. It was a fortunate outcome as by 1975 Slater Walker was heading for insolvency as a result of the secondary banking crisis. It had to be supported by the BoE, which took over its banking subsidiary in 1976.\textsuperscript{42} The group was later mired in scandal—hardly a suitable member for the prestigious AHC. Slater Walker was later renamed Britannia Arrow.

The key requirements for membership of the AHC were that its members had to be British-owned and independently managed. Therefore, once Grindlays started to take more control of Wm. Brandts as a result of its escalating losses from the secondary banking crisis, it was inevitable that questions would be asked about the independence of Wm. Brandts and consequently its eligibility to remain a member of the AHC. Hence, after sixty years of membership of the AHC from its beginning in 1914, Wm. Brandts decided in May 1975 to renounce voluntarily
its membership of the AHC. Wm. Brandts continued to incur property losses, needing to set aside £19m against a property portfolio of £90m. Later in 1975, Grindlays injected new capital of more than £30m. As a result, Wm. Brandts was clearly no longer independently managed.

A comparable situation arose with Antony Gibbs. In 1973, the Hong Kong & Shanghai Banking Corporation (hereafter HSBC) acquired a 20% stake in the firm. The stake was doubled the following year. By April 1980, Antony Gibbs, which was established in 1808, had become a wholly owned subsidiary of HSBC. Antony Gibbs was therefore forced to leave the AHC as it was by then regarded as being foreign-owned. Arbuthnot Latham was soon to follow Antony Gibbs to the exit as a result of its foreign ownership. It had been acquired by Dow Scandia Banking Corporation, becoming a foreign-controlled merchant bank. Singer & Friedlander almost suffered the same fate in 1980 when its majority shareholder, C. T. Bowring, was being acquired by the American insurance broker Marsh and McLannan. The unlikely saviour was European Ferries, which acquired the firm. In 1984, European Ferries sold a controlling interest in the firm to Britannia Arrow for £52m. Ironically, Britannia Arrow, which until 1977 was known as Slater Walker, had finally joined the elite club.

The privileges and rules of the AHC had begun to appear increasingly anachronistic as international banking competition grew and restrictive practices came under threat across the City and elsewhere in British society. Not surprisingly, in 1988 a newly formed body called the British Merchant Banking and Securities Houses Association replaced the AHC.

CONTINUING EVOLUTION

In 1967, the Midland Bank became the first British clearing bank to own a London merchant bank when it acquired a one-third equity stake in Montagu Trust, which owned the merchant bank Samuel Montagu. In 1973, it became a wholly owned subsidiary, an event that was described at the time as “an important milestone in the evolution of banking in this country”. By 1989, the top twelve merchant banks included Barclays de Zoete Wedd, County NatWest, Midland Montagu and Lloyds Merchant Bank. The “Big Four” clearing banks each had a major
merchant banking subsidiary. It is nevertheless a remarkable tribute to survival that some of the traditional merchant banks such as Kleinworts, Morgan Grenfell, Hambros, Schroders, Rothschilds and Barings were still in the league tables over forty years after the end of the Second World War. Did such league tables provide a misleading picture of the continuing viability of the remaining merchant banks?

During the 1960s, some merchant banks benefited from the growth in corporate restructurings, enabling them to earn large fees by providing corporate finance advice, but the major growth area was in offshore dollar deposits (those held outside of the USA) and the associated Eurobond issues—the so-called Eurocurrency markets. The growth in these markets would be spectacular. In 1963, Warburgs was the lead manager in the first Eurobond issue. It was for the Italian highway company, Autostrade. An issue of US$15m 5⅞% guaranteed bonds backed by the Italian government. While Warburgs and to some extent Rothschilds continued to participate in Eurobond issues, by the early 1980s Warburgs was the only British bank with any meaningful presence. In 1985, the most prominent issuer was Crédit Suisse First Boston, which, although London-based, had Swiss and American owners. In 1985, it was responsible for 100 Eurobond issues, representing over 14% of the market—more than the combined share of all the British banks in this market.

During the late 1970s, commercial banks acted in syndicates to help recycle global financial imbalances, which had arisen mainly because of the huge increases in oil prices. Much of this wealth was channelled into Latin American and other developing countries—often referred to as LDC (lesser-developed country) loans. Inevitably, the lending boom ended abruptly in August 1982 when Mexico defaulted. The increase in doubtful sovereign debts led to a growing lack of confidence in the creditworthiness of the large commercial banks, which in turn led to a reduction in Eurocurrency deposits with those banks and a growth in disintermediation whereby borrowers raised finance directly from the market. The deciding factor would no longer be the size of deposits held by a bank, but its ability to distribute securities. Investment banks needed to underwrite and manage issues by putting their own capital at risk. The lack of competitiveness of British banks in global finance in this respect made the remaining large merchant banks vulnerable. The opportunity was present, but those merchant banks that tried to compete simply could not match the larger global houses.
The deregulation of UK financial markets in 1986—known as Big Bang or the City Revolution—resulted in a spate of acquisitions of stockbroking and jobbing firms as banks tried to gain securities distribution capacity—Table 11.1. Most of the larger merchant banks faced a strategic dilemma. Should they diversify into the global securities business to compete with the “integrated” model of the US investment banks or focus on advisory services such as corporate finance and investment management?54

In July 1987, The Economist reported that some of the smaller merchant banks, such as Lazards and Robert Fleming, had limited their ambitions to focus on investment management and corporate finance. On the other hand, while Hambros and Schroders were regarded as strong corporate finance houses, both also had stakes in stockbrokers—Schroders owned the American agency broker Wertheim, while Hambros had a 27% stake in Strauss Turnbull. Nevertheless, neither firm had gone heavily into securities trading. Schroders was already building a reputation as a top investment management house, whereas Hambros derived more than half its profits from non-banking activities, including insurance broking and estate agency.55

Table 11.1  Pre-Big Bang acquisitions by merchant banks

<table>
<thead>
<tr>
<th>Date</th>
<th>Merchant bank</th>
<th>Stockbroker</th>
<th>Jobber</th>
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<tbody>
<tr>
<td>November 1983</td>
<td>S. G. Warburg</td>
<td></td>
<td>Akroyd &amp; Smithers</td>
</tr>
<tr>
<td>December 1983</td>
<td>N. M. Rothschild</td>
<td>Smith Bros.</td>
<td></td>
</tr>
<tr>
<td>March 1984</td>
<td>Hambros</td>
<td>Strauss Turnbull</td>
<td></td>
</tr>
<tr>
<td>March 1984</td>
<td>Samuel Montagu (Midland Bank)</td>
<td>W. Greenwell</td>
<td></td>
</tr>
<tr>
<td>April 1984</td>
<td>Guinness Mahon</td>
<td></td>
<td>White &amp; Cheesman</td>
</tr>
<tr>
<td>April 1984</td>
<td>Morgan Grenfell</td>
<td></td>
<td>Pinchin Denny</td>
</tr>
<tr>
<td>May 1984</td>
<td>Baring Bros.</td>
<td>Henderson Crothwaite (Far East)</td>
<td></td>
</tr>
<tr>
<td>June 1984</td>
<td>Hill Samuel</td>
<td>Wood MacKenzie</td>
<td></td>
</tr>
<tr>
<td>June 1984</td>
<td>Kleinwort Benson</td>
<td>Grievson Grant</td>
<td></td>
</tr>
<tr>
<td>August 1984</td>
<td>S. G. Warburg</td>
<td>Rowe &amp; Pitman</td>
<td></td>
</tr>
<tr>
<td>August 1984</td>
<td>S. G. Warburg</td>
<td>Mullens</td>
<td></td>
</tr>
<tr>
<td>October 1984</td>
<td>Kleinwort Benson</td>
<td></td>
<td>Charlesworth &amp; Co.</td>
</tr>
<tr>
<td>October 1984</td>
<td>Morgan Grenfell</td>
<td>Pember &amp; Boyle</td>
<td></td>
</tr>
<tr>
<td>November 1985</td>
<td>Baring Bros.</td>
<td></td>
<td>Wilson &amp; Watford</td>
</tr>
</tbody>
</table>

*Source* Author’s table based on information in the Financial Times, 11 May 1984, 7 October, and 5 November 1985
Only the largest firms could hope to compete in the world’s main securities markets. Those merchant banks that aimed to compete were tiny in comparison with their American and Japanese competitors. As The Economist pointed out, the Japanese house Nomura could buy all sixteen members of the AHC, including Rothschilds and Barings, without feeling any strain. There was some hope in the market, as reflected in the share prices of the quoted merchant banks, that there would be a second wave of acquisitions—the so-called Global Bang—as larger foreign institutions bought up the British merchant banking groups.

In July 1987, after months of speculation, the first rumble of the Global Bang was heard when it was announced that the Union Bank of Switzerland (hereafter UBS) was to acquire Hill Samuel. UBS already had a large capital markets operation in London. It also owned the UK stockbroker Phillips & Drew (hereafter P&D), which it acquired before Big Bang. One of the strategic aims of the acquisition was to merge P&D with Hill Samuel’s UK stockbroker, Wood MacKenzie, to provide full coverage of UK equity and fixed interests markets. The immediate consequence of the announcement was the dramatic resignation of Hill Samuel’s chief executive, Christopher Castleman, who had worked for the firm for 24 years. He opposed the firm’s impending loss of independence. Ironically, within just over two months, UBS withdrew from talks with Hill Samuel—the deal was off. It was suggested in the financial press at the time that the deal may have collapsed because of Hill Samuel’s noncore businesses, which ranged from shipping though insurance to employee benefits, as these activities simply did not fit with UBS. The first attempted deal of the Global Bang turned into a damp squib. Later in 1987, Hill Samuel was acquired by the TSB Group—formerly the Trustee Savings Bank. The combined group would offer a wide range of financial services from retail banking, insurance and car rentals to corporate finance and investment management, but there was no room for the stockbroking business of Wood MacKenzie—one of the first major casualties of the collapsing pre-Big Bang rationale.

The acquisition by TSB was the fourth attempt by Hill Samuel to find a partner. It was not the only merchant bank that tried to find a partner to strengthen its business in the post-Big Bang world. In October 1985, Guinness Peat, owner of Guinness Mahon, made a takeover bid for Britannia Arrow, owner of Singer & Friedlander. The combined business
would have two members of the AHC and would rival Warburgs and Kleinworts, but without their commitments to Big Bang. Nevertheless, after a 68-day heated battle, insufficient acceptances were received from shareholders, so Guinness Peat’s bid was unsuccessful.60

No sooner had one bid failed than another was launched. In February 1986, it was announced that Morgan Grenfell was holding merger talks with Exco International, one of the big four UK money brokers.61 Morgan Grenfell’s chief executive, Christopher Reeves, claimed that the deal would ensure Morgan Grenfell would be one of “a small number of major British players in the international markets”. This ambition was thwarted by the BoE. In the 1970s, the BoE limited the involvement of banks in money brokers to a small percentage holding to prevent potential conflicts of interest. Morgan Grenfell’s proposed merger would fall foul of this restriction. Despite Morgan Grenfell’s hopes of a waiver, the BoE refused to provide one—the proposed deal collapsed.62 Morgan Grenfell later suffered big losses in its equities business and then became embroiled in the Guinness scandal.63 In 1989, it was acquired by Deutsche Bank. More shocks would occur in the mid-1990s as the ill-judged foray by some merchant banks into proprietary trading was exposed.

Warburgs’ badly timed expansion into global bond trading in 1994 led to losses and precipitated merger discussions with the American bank Morgan Stanley. These discussions failed as Warburgs’ investment management business, Mercury Asset Management (known as MAM), wanted to retain its independence. These failed talks led to a loss of confidence in Warburgs’ top management.64 It also demonstrated the increasing importance of investment management to the remaining merchant banks. This importance became even clearer later that year when Warburgs’ announced its interim profits. They were £62.5m in total, but no less than £57m had been contributed by MAM.65

The biggest shock, however, was the collapse of Barings in February 1995. In the official report into the collapse, it was recorded that it was the result of

the unauthorised and ultimately catastrophic activities of, it appears, one individual [Nick Leeson] that went undetected as a consequence of a failure of management and other internal controls of the most basic kind.66
While the “rogue trader” explanation was given some official credence, the more damning remark was about the lack of basic controls in Barings. The Labour peer Lord Eatwell put it more bluntly when he said that Barings’ management “clearly could not be entrusted with a whelk stall”. After 233 years of independent trading and 105 years after its crisis of 1890, Barings was acquired for a nominal sum by ING Group of The Netherlands.

The historian David Kynaston noted that views were expressed that the collapse of Barings was “the writing was on the wall for much of the British merchant banking sector”. For example, in a House of Lords’ debate in 1995, the former merchant banker Lord Spens claimed that there was

no question but that the failure of Barings has made the climate for medium sized financial institutions much colder and much more difficult. The cost of funds has gone up and their competitive place in the market place has been undermined.

In the same debate, the Lord Eatwell said that, as a result of the Barings’ collapse,

it is no accident that famous names in British merchant banking - Warburgs and Kleinwort Benson - have surrendered their independence to foreign buyers: the Swiss Bank Corporation and Dresdner Bank respectively.

Interestingly, while Warburgs’ investment banking business was sold, MAM retained its independence. Five years later in 2000, Schroders sold its investment banking business to Salomon Smith Barney, part of the American corporate giant Citigroup, to focus on investment management. The dream of British merchant banks succeeding in the global securities business was at an end.

**Conclusion**

In the decades after the Second World War, significant changes in global trading and finance had a fundamental impact on the surviving merchant banks. Those firms that had opted for a mercantile model, even widely diversified ones such as Balfour Williamson, found it difficult to
survive. There was a shift away from merchanting to banking activities, but even here there was a need for greater scale. Some merchant banks aimed to obtain critical mass by merging with other merchant banks—both Kleinworts and Schroders adopted this approach, whereas other firms tried to achieve scale through cross-fertilisation with property companies—both Hill Samuel and Keyser Ullman followed this route, albeit unsuccessfully.

The honeymoon with property in the early 1970s resulted in the demise of a number of smaller merchant banks—either through failure or loss of independence. While membership of the elite City club of the AHC continued to be highly sought after, a number of firms lost their membership because of a loss of independence especially where foreign owners were involved. The rivalry with the clearing banks that had existed throughout the interwar period had in effect run its course. The four large clearing banks each had a significant merchant banking subsidiary competing with the surviving traditional merchant banks.

Big Bang in 1986 gave rise to a strategic dilemma for the remaining larger merchant banks. Many of the leading UK merchant banks, including Barings, Hambros, Hill Samuel, Kleinworts, Morgan Grenfell and Warburgs, tried to adopt an integrated business model to compete in the global securities markets. To compete in the global securities markets required significant amounts of capital on a much greater scale than was available even to the largest of these firms.

Had the lessons of the interwar period been ignored or was this the twilight of the once mighty merchant banks? In the decades after the Second World War, the merchant banks experienced shifting trade patterns and continuing growth in competition both domestically and internationally. Many of the remaining merchant banks struggled in this environment, making poor choices and adopting high-risk strategies. Similar challenges had been faced in the interwar period, but only a few of the firms seemed consciously to adopt less risky strategies—firms such as Schroders, Lazards and Robert Fleming opted to focus on advisory services. The collapse of Barings in 1995 finally made clear the delusional strategies of a number of the remaining merchant banking houses. The endgame had been played to its conclusion.
NOTES

4. The author’s career would have been quite different too as I worked at Guinness Mahon from 1989 to 1992, moving to Schroders in 1992 where I stayed until 1999.
5. LMA, Ralli Brothers, CLC/B/186/Ms23836, Historical material on the company, 1902–1952, handwritten manuscript of *An Enterprise which does honour to Greece: The House of Ralli Brothers* by Leoni M. Calvocoressi, December 1952.
30. *Financial Times*.
41. *Financial Times*, 5 April 1957.
43. *Financial Times*, 1 May; 17 September 1975.
46. *Financial Times*, 12 November 1983; 5 April; 10 May 1984. In October 1987, Singer and Friedlander reversed into Gilbert House Investments and later became independent. In August 2005, it was acquired by Kaupthing Bank, the Icelandic bank, which went into administration during the 2008 crisis.
49. *The Times*, 4 August 1973. The comment was made by Louis Franck, president of Montagu at the time.


63. The Guinness scandal was one of a number of unfortunate events to hit Morgan Grenfell. In 1967, the firm’s involvement in film finance virtually obliterated the firm’s capital base. In 1987, its head of securities, Geoffrey Collier, was found guilty of insider trading, and in 1996, the fraudulent activities of one of its fund managers, Peter Young, were uncovered.

64. Peter Stormonth Darling, *City Cinderella: The Life and Times of Mercury Asset Management* (London, 1999), pp. 238–244.


70. Hansard, House of Lords, 21 July 1995, Banking Supervision, column 531.


73. In April 2000, Robert Fleming Holdings was sold to Chase Manhattan Bank for $7.7 billion. When Chase merged with J. P. Morgan & Co. in 2001, the Flemings asset management business was rebranded J. P. Morgan Fleming.
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In the style of an obituary, the historian David Kynaston described the British merchant banks at the end of the twentieth century as having had a pretty good run, despite being mainly undermanaged and often underperforming. At last, with almost shocking abruptness, their time was just about up— all mystique gone, victims of a world that no longer needed to choose between brains (or a socially acceptable substitute) and brawn.\textsuperscript{1}

I do not believe that this is a fair conclusion. Throughout their history, the merchant banks had been exposed to intense competition both domestically and internationally. It is a measure of the resilience and adaptability of some of these firms that they continue in business today, albeit undertaking different activities than those undertaken in the interwar period.

Many of the merchant banks that survived the interwar period did so either by moving towards domestic financial services, including corporate finance and investment management, or by becoming part of international mercantile and investment groups. A number of these firms are now investment managers or private banks. For example, Schroders on its website states that “asset management is our business”, and Kleinworts, having re-emerged as an independent firm in 2010, now focuses on “private banking and wealth management”.\textsuperscript{2} Rothschilds continues to provide “M&A, wealth management and fundraising advice and services to governments, companies and individuals worldwide”.\textsuperscript{3}
A number of the smaller firms, in some cases re-emerging from previous takeovers, continue to offer private banking and wealth management services, including Arbuthnot Latham, Brown Shipley, Close Brothers and Rathbones. Merchant banking has not disappeared entirely, but has been transformed—a process that started in the interwar period. The themes identified in the interwar period continued to unfold in the second half of the twentieth century, including the appropriate choice of business activities, the increasing competition from other financial institutions, the generally lax attitudes to risk management and continuing inadequate regulatory supervision.

The transformation of merchant banking was forged in the difficult economic conditions of the interwar period. However, many of these firms emerged during an earlier period of crisis. After the end of the Napoleonic Wars, there was excessive monetary expansion that resulted in inevitable financial speculation, especially in investments in the newly created Latin American republics. This speculation led ultimately to the financial crisis of 1825. This crisis had a devastating impact on the private banking sector, effectively destroying much of the indigenous merchant banking capacity in Britain. In 1826 in order to create new banking capacity, the Bank of England’s monopoly over joint-stock banking was removed. These changes ushered in a new era in British banking. It also gave rise to a new breed of merchant bank. These firms were usually small partnerships of foreign origins. They had an international outlook but did not ignore domestic opportunities. Many of these firms would become internationally renounced financial institutions such as Rothschilds and Schroders. However, by the end of the twentieth century most of these firms either had failed or had been acquired by other institutions. This book has sought to explain how this transformation happened. My research has demonstrated that the answers are to be found in the period between 1914 and the late 1930s.

Although the historiography of financial markets and institutions in the interwar period has dealt with some aspects thoroughly—such as the Wall Street Crash, the banking failures in Central Europe and the Great Depression—the merchant banks have been sparsely covered. The usual reason given for this lack of research is that this sector was largely moribund in this period. However, in this book it has been demonstrated that this situation was far from the case. It is my contention that the merchant banks underwent significant changes in the interwar period.
As in previous upheavals in financial markets, many firms failed during this period, but there were also numerous new entrants. How firms dealt with the radical shifts in economic conditions and increased competitive pressures determined their survival.

By the outbreak of war in 1914, the merchant banking sector was already experiencing severe competition. Towards the end of the nineteenth century, joint-stock banks, both British and foreign, had started to participate in international business. For instance, in 1875 the London Joint Stock Bank was appointed the English agent for the Imperial Bank of German. For a period of almost fifty years, the merchant banks had had little competition in international trade finance and the bond issuance business. The golden age for the merchant banks began to come to an end in the last twenty years of the nineteenth century—it was not suddenly ended by the outbreak of war in 1914.

The established merchant banks had struggled to maintain their positions of dominance in acceptance finance and securities issuance. There was also a reluctance to reduce the concentration of their business in high-risk countries. Financial innovation also contributed to a weakening of their position. The provision of overdraft facilities by the joint-stock banks and availability of telegraphic transfers reduced the usage of acceptance credits for the settlement of trade transactions. In order to maintain market share, the merchant banks made acceptance credits available in the form of finance bills with disastrous consequences when war broke out. In their issuing businesses, the merchant banks were slow to use underwriting as a means of reducing risk. The joint-stock banks also had the advantage in distributing new issues, relying on their growing customer base and establishing close links with stockbroking firms to broaden distribution.

The enormous disruption caused by the First World War highlighted the weakened state of many of the merchant banks. Further disruption was caused by accusations of disloyalty owing to the foreign origins of many firms and, of course, by the loss of life, particularly of family members, which destroyed succession plans. While firms that had significant Anglo-American business faced fewer difficulties, those highly dependent on European business especially with Germany and Russia faced liquidation. The lifeline provided by a government-backed moratorium on bills of exchange accepted before 4 August 1914 enabled many firms to survive at least for the duration of the war and for a time beyond. However, the fundamentally unsound nature of many of these businesses had been exposed.
Government-backed support for financial institutions remains a highly controversial topic. Much of the historiography has focused on the alleged close connections between the Bank of England (hereafter BoE), the Treasury and the City, and on the influence of the City in economic and financial policy. These views have been challenged in this book by using archival evidence. By the end of the First World War, many of the merchant banks were in a weakened state, including some that were in terminal decline. These circumstances should have presented an ideal situation for these firms to use their influential connections to get favourable treatment. While some firms did get exceptional support, they were in a minority as many struggling firms were either allowed to fail or slowly wound up.

The BoE however had increasing concerns about amalgamations among large clearing banks as well as about their overseas expansion plans. Based on the available historiography, it would be easy to assume that the BoE was attempting to safeguard the traditional business of the merchant banks, but this assumption is hard to reconcile with its direct or tacit approval of new specialist financial institutions that were launched in direct competition with the merchant banks. The explanation that I have provided is based on the two main objectives of the BoE. Its primary objective was to safeguard the domestic financial system; its secondary objective was to restore and, if possible, enhance Britain’s standing in international finance. Protecting the merchant banks because of tradition or sentiment was not a consideration. Where support had been provided by the BoE, it was to protect the international reputation of commercially important merchant banks. Similarly, some of the clearing banks helped their merchant bank customers based on sound commercial judgements, rather than altruism.

The true nature of the situation can only be properly appreciated by examining the histories of the firms that struggled to survive or failed during this period. An attempt has therefore been made to recover these lost histories from the fragments of information left about these firms. This approach is vital for a proper understanding as it is too easy to assume that the experience of the surviving merchant banks is representative of the sector as a whole. The narrowing of the options available to many firms caused by intense competition and shifts in markets,
as well as their inability to adapt, resulted in a high mortality rate. The First World War should have provided a rude awakening to the merchant banks, but many of the lessons were not learnt by them, and further calamities would happen before changes started to occur.

These struggles continued into the late 1920s and early 1930s. In addition to the continuing competition from the large clearing banks and emerging financial institutions, the US dollar-based acceptance market began to grow strongly. Unsound practices began to be introduced during the war initially in an attempt to fund the allied war effort. Trade-based acceptances started to be renewed after their due date, becoming essentially unsecured loans. These practices, however, continued after the war and became endemic. A lack of capital and a weakened local banking system drove demand for financing from Germany and other Central European countries. Despite warning signs, the merchant banks competed to retain market share. My research has shown that a number of merchant banks took undue risk and probably ran loss-making acceptance finance businesses in the late 1920s. The mistakes that had been made before 1914 were repeated and were exposed by the financial crisis of 1931.

As in 1914, the available evidence suggests that in 1931 the BoE was unaware of the dire financial condition of many of the merchant banks. It also did not take heed of indicators of severe stress in the money markets. As in the post-war period of the early 1920s, the BoE was faced with a dilemma. It attempted again to protect Britain’s standing in international finance by supporting a select number of banks, including Lazards and the Anglo-South American Bank. The large clearing banks again offered support to some of their merchant banking customers. However, the BoE’s primary objective of safeguarding the domestic financial system took precedence. Britain was forced off the gold standard and gradually moved to adopt a policy of lower interest rates. These events effectively ended London’s role as international financial hegemon. Over the following years, the BoE participated in the fiction that outstanding acceptances from Germany and elsewhere in Central Europe were not simply frozen loans, but eventually by the mid-1930s, it started to exert pressure on the merchant banks to remove these acceptances from the market, resulting in inevitable causalities.
From the last decade of the nineteenth century to the period leading to the outbreak of the Second World War, the merchant banks faced a series of serious challenges. Although a number of merchant banks failed, and others struggled in terminal decline, there were a number of firms that survived into the second half of the twentieth century and in a few cases beyond. It has been demonstrated that such survival was not achieved because of altruistic support from either the BoE or the large clearing banks; any support provided was given on a commercial basis in the belief that the underlying business was worth supporting. It was usually those merchant banks that transformed the nature of their business that survived.

The alleged lack of support for British industry by the City has frequently been cited as a cause of Britain’s supposed economic decline in the interwar period. This allegation has often been based on a misunderstanding of the different roles played by merchant banks as opposed to clearing banks. My research has shown that merchant banks were active in the provision of short-term finance in the form of acceptance credits to the domestic economy throughout the interwar period against fierce competition from overdraft facilities and advances from the clearing banks. Merchant banks were also a source of funds behind the growth of instalment finance and also managed issues of long-term capital for many British companies. However, two important transformations took place in the interwar period in the relationship between British industry and the merchant banks.

Some of the merchant banks began to realise that simply arranging finance was not necessarily a solution to the deeply embedded problems of some sectors of British industry. Expert advice was needed from both industrial and financial specialists. This transformation enabled the merchant banks to establish corporate finance advice as a core activity. Increasing affluence also drove demand for new forms of investment. The merchant banks had been involved in promoting investment trust companies since the nineteenth century and continued to do so in the interwar period. These included investment vehicles to finance British industry, including investing in smaller industrial companies. This period also saw the launch of a new form of collective investment scheme—the unit trust. The closer relationships developed by some of the merchant banks with large industrial companies eventually enabled them to begin
managing investments for such companies, including corporate pension schemes. The activities of corporate finance and investment management would provide the foundations for the surviving merchant banks. It also represented a shift towards advisory services that were less risky than activities funded by a firm’s capital.

Another misconception about the merchant banks in the interwar period was that a move from mercantile activities to finance was inevitable. During the interwar period, a number of merchant banks made the choice to retain their involvement in mercantile activities either independently or as part of a broader mercantile investment group. Such decisions were made in the light of the severe challenges faced in the interwar period. However, there was a regional pattern to these developments. Those merchant banks operating in the Far East or South America were more likely to follow this development path than those firms whose business had been concentrated in North America and Europe. One key contributing factor to this different development path was the role of British overseas banks, which often established a symbiotic relationship with local merchant houses. Such relationships were closer than those between large domestic clearing banks and their merchant banking customers. The mercantile roots of many merchant banks were deep-seated, and it is therefore not surprising that in times of severe economic downturns some firms placed reliance on these long-established connections.

Merchant banking was far from moribund in the interwar period. It was a time when firms faced severe challenges and the manner in which they responded to these tests played a major part in determining their long-term survival. Firms with poor risk management, inadequate financial controls and insufficient capital tended to fail; those firms that adapted their business to reduce expose to high-risk activities by moving towards financial advisory services tended to survive. Between 1914 and 1939, the merchant banking sector underwent a transformation with a high mortality rate. While this transformation would continue to unfold into the late twentieth century, it had its origins in the interwar period as a response to the harsh economic climate at that time. This transformation of merchant banking forms an important part of British financial history and merits greater understanding.
NOTES


5. The Country Bankers’ Act of 1826 allowed the establishment of note issuing joint-stock banks with more than six partners, but not within 65 miles of London.

Appendix

Profiles of the British Merchant Banks operating between 1914 and 1939

An attempt has been made to identify as many merchant banks as possible operating in the period from 1914 to 1939, and to provide a brief profile of the origins and main developments of each firm, including failures and amalgamations. While information has been gathered from a variety of sources, the Bankers’ Return to the Inland Revenue published in the London Gazette between 1914 and 1939 has been an excellent source. Some of these firms are well-known, whereas many have been long-forgotten. It has been important to this work that a comprehensive picture of the merchant banking sector in the period 1914–1939 has been obtained. Therefore, significant efforts have been made to recover as much information as possible about lost firms. This listing shows that the merchant banking sector was far from being a homogeneous group. While there were many firms that failed during this period, there were also a number of new entrants. The nature of merchant banking also evolved as stockbroking firms and issuing houses became known as merchant banks. The period from 1914 to the late 1930s was one of significant change for the sector.
<table>
<thead>
<tr>
<th>Firm</th>
<th>Profile</th>
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<tbody>
<tr>
<td>T. H. Allan &amp; Co.</td>
<td><strong>1874 to 1932</strong></td>
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<tr>
<td>17 Gracechurch St.,</td>
<td>East India Agent. Described in advertisement in 1928 as “Coffee Importers since 1874”, offering “Liberal Advances given against consignments”.¹ The firm had an agent in Kenya in 1929²</td>
</tr>
<tr>
<td>London, EC</td>
<td>Filed Bankers’ Returns between 1914 and 1932.³ Principals described as Merchant Bankers in 1932 return. Declared bankrupt in November 1932 with the firm described as Merchants and Planters⁴</td>
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<tr>
<td>Arbuthnot, Latham &amp; Co.</td>
<td><strong>1833 to 1981</strong></td>
</tr>
<tr>
<td>To 1929:</td>
<td>Founded in 1833 as Arbuthnot &amp; Latham. In 1861 Alfred Latham becomes Governor of the Bank of England</td>
</tr>
<tr>
<td>33 &amp; 34 Great St Helen’s,</td>
<td></td>
</tr>
<tr>
<td>London, EC</td>
<td>In 1891 Consolidated Estates Company formed to manage the firm’s Ceylonese and Indian interests. The firm’s chief market was India, but it also traded in the West Indies and Central America⁵</td>
</tr>
<tr>
<td>From 1929:</td>
<td>In 1921 Arbuthnot, Latham &amp; Co converts to a limited liability company. The grounds given were “family reasons”, which seem to be the absence of sons to continue partnership⁶</td>
</tr>
<tr>
<td>9 St. Helen’s Place</td>
<td>In 1944 John K. Gilliat &amp; Co was acquired.⁷ In 1981 the firm was acquired by Dow Skandia Banking Group⁸</td>
</tr>
<tr>
<td>London, EC</td>
<td>In 2005 the Arbuthnot name resurfaced as the Arbuthnot Banking Group, which can trace its roots to Arbuthnot Latham &amp; Co. Ltd.</td>
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</tr>
<tr>
<td>Balfour, Williamson &amp;</td>
<td><strong>1851 to 1960</strong></td>
</tr>
<tr>
<td>Company</td>
<td>Founded in Liverpool by Scottish traders in 1851. Initially associated with the Chilean trade, later extended to California. Involved in fruit and grain trade</td>
</tr>
<tr>
<td>7 Gracechurch Street,</td>
<td>The South American operation was undertaken from 1863 by Williamson, Balfour &amp; Co. in Valparaiso, Chile.⁹ In 1869 a partnership was formed in the USA called Balfour, Guthrie &amp; Co.¹⁰ In 1960 it was acquired by the Bank of London &amp; South America, which had been a subsidiary of Lloyds Bank since 1918¹¹</td>
</tr>
<tr>
<td>London, EC</td>
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(continued)
J. Lionel, Barber and Co. Ltd.  
*Banking House*  
5 Lothbury  
London, EC2  
*Commercial House and Head office*  
411 Tower Building,  
Liverpool  

**Firm Profile**  
J. Lionel Barber chaired the Lampa Mining Co.—a silver mining company registered in Liverpool in 1906. He formed the Corocoro United Copper Mines in 1909, which operated properties in Bolivia. In 1912 the firm was taken over as a going concern by a Liverpool-based company with the injection of £100,000. J. Lionel Barber became “permanent governing director”13  
The firm had partnerships in Chile, Peru and Brazil as well as a North American house called Barber, Williams & Co. Inc. based in New York14  
One of the firm’s managers conducted a fraud in 1920 involving bills in excess of £60,000. Probably as a result, the firm suspended payments on 5 March 192115  

**J. Lionel, Barber and Co. Ltd.**  
**Profile**  
c.1910–1921  

Baring Brothers & Co. Ltd.  
8 Bishopsgate,  
London, EC  

**Firm Profile**  
Established in London in 1762 as John & Francis Baring & Co. as agents for the family merchant business in Exeter. In 1801 it was renamed Sir Francis Baring & Co. The firm became a major merchant banking house especially in sovereign bond issues. In 1890 it suffered a liquidity crisis and was rescued by a Bank of England loan guaranteed by other banks. It was reconstituted as Baring Brothers & Co. Ltd. It became insolvent in 1995 because of a rogue trader called Nick Leeson employed in Singapore. Consequently, the company was acquired for a nominal sum by ING Group of the Netherlands16  

**Baring Brothers & Co. Ltd.**  
**Profile**  
1762 to 1995  

Thomas Barlow & Brother  
Ceylon House,  
49 & 51 Eastcheap,  
London, EC  

Offices in Manchester, Calcutta (until 1936), Shanghai (until 1937), Singapore and Kuala Lumpur. In 1949 only London and Manchester addresses  

**Firm Profile**  
Founded in 1863 by Thomas Barlow as an exporter of cotton goods. In the late 1880s, the firm financed tea estates and acquired several tea estates in Ceylon and Assam. In the late 1890s the firm shifted to the cultivation of rubber, floating the Highlands & Lowlands Para Rubber Co. Ltd. in 1906. The firm took the role as company secretaries and selling agents for a number of plantation companies in London while the Far Eastern offices acted as managing agents. The firm was included in Banker’s Return from 1933 to 1938 only In 1965 it merged with one of its rivals, Bousteads. By 1979 the firm had become an investment holding company, having effectively divested its physical assets due to local Malaysian demands for repatriation of estate assets19  

**Thomas Barlow & Brother**  
**Profile**  
1863 to 1979  

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<th>Firm</th>
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<tr>
<td>Barnato Brothers</td>
<td>1880 to 1919</td>
</tr>
<tr>
<td>10 &amp; 11 Austin Friars,</td>
<td>In 1880 Barney Barnato established the firm of Barnato Brothers as</td>
</tr>
<tr>
<td>London, EC</td>
<td>diamond brokers and merchant bankers. After the First World War the</td>
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<td></td>
<td>firm invested in restaurants, a brewery, cotton manufacturing and the</td>
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<td></td>
<td>London Underground. After a dispute over the wills of former partners</td>
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<td></td>
<td>in 1919, the partnership was dissolved, and a private limited company</td>
</tr>
<tr>
<td></td>
<td>formed. The private company had extensive operations in mining</td>
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<td></td>
<td>investment with Anglo-American Investment Trust and De Beers Consolidated</td>
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<td></td>
<td>Mines. It later became a wholly-owned subsidiary of Johannesburg</td>
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<td></td>
<td>Consolidated Investment Company, which was also founded in 1889 by</td>
</tr>
<tr>
<td></td>
<td>Barney Barnato</td>
</tr>
<tr>
<td>Robert Benson &amp; Co.</td>
<td>1852 to 1961</td>
</tr>
<tr>
<td>31 Bishopsgate,</td>
<td>The Benson family established as textile merchants in Liverpool in the</td>
</tr>
<tr>
<td>London, EC</td>
<td>1780s. The business moved to London in 1852, becoming a merchant bank.</td>
</tr>
<tr>
<td>From Nov. 1915: 26 Old</td>
<td>It was closely connected with railroad finance in the USA in the late</td>
</tr>
<tr>
<td>Broad Street,</td>
<td>nineteenth century. Member of the International Financial Society issuing</td>
</tr>
<tr>
<td>London, EC</td>
<td>consortium in 1863. Converted into a private limited company in 1926.</td>
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<td></td>
<td>In 1947 it merged with Lonsdale Investment Trust to become Robert Benson</td>
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<td></td>
<td>Lonsdale &amp; Co. Ltd., which in 1961 merged with Kleinwort, Sons &amp; Co.</td>
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<tr>
<td></td>
<td>Ltd. to become Kleinwort Benson Ltd.</td>
</tr>
<tr>
<td>B. W. Blydenstein &amp; Co.</td>
<td>1859 to 1953.</td>
</tr>
<tr>
<td>55 &amp; 56 Threadneedle</td>
<td>Founded in 1859 by Benjamin Willem Blydenstein. In the same year, he</td>
</tr>
<tr>
<td>Street, London, EC</td>
<td>founded its Amsterdam branch, Twentsche Bank, of which he was a director</td>
</tr>
<tr>
<td>4 Hercules Passage,</td>
<td>In 1928 Twentsche Bank was converted to a limited company. There was a</td>
</tr>
<tr>
<td>Old Broad Street,</td>
<td>similar change in its parent company, De Twentsche Bank of Amsterdam.</td>
</tr>
<tr>
<td>London, EC</td>
<td>The paid-up capital of B. W. Blydenstein was increased from £625,000 to</td>
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<td></td>
<td>£700,000.</td>
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<td>From 30 September 1932, the firm restricted its activities in the London</td>
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<td></td>
<td>discount and bill market. This led to a change of partners and a</td>
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<td></td>
<td>reduction in the firm’s capital to £100,000. In 1953 the firm’s business</td>
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<td></td>
<td>was absorbed within De Twentsche Bank NV and De Nederlandsche</td>
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<td>Handel-Maatschappij NV of Amsterdam.</td>
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<tr>
<th>Firm</th>
<th>Profile</th>
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<tbody>
<tr>
<td>Blyth, Greene, Jourdain &amp; Co. Limited</td>
<td>1810 to 1981</td>
</tr>
<tr>
<td>41 Eastcheap, London, EC</td>
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<tr>
<td></td>
<td>Thomas Blyth and Co. was established in Limehouse in 1810 as a sail-maker and ship chandler. The Mauritius firm of Thomas Blyth, Sons &amp; Co. was established in 1830. In 1874 the firm became Blyth, Greene, Jordain &amp; Co. and incorporated as a private limited company in 1894. Shortly afterwards acquiring the banking business of Benecke Souchay &amp; Co. In 1903 the firm became the sole agents of the Asiatic Petroleum Company for Mauritius and Réunion. This evolved into an agency for Shell Company of South Africa. During the interwar period the firm did a considerable amount of trade in rice from Burma. The firm was involved in giving credit to customers abroad and making advances to shippers against produce. In 1981 the company was acquired by John Swire and Sons</td>
</tr>
<tr>
<td>Bonn &amp; Co.</td>
<td>c.1900 to 1921</td>
</tr>
<tr>
<td>62½ Old Broad Street, London, EC</td>
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<td></td>
<td>Max Bonn’s father provided the capital for the business. Walter Bonn was Max’s cousin. Walter Bonn served in the Welsh Guards in the First World War, reaching the rank of Major. He was awarded the Military Cross and Distinguished service Order. He did not return to the firm. From 30 June 1919, Max Bonn was sole partner. The firm was acquired by Helbert, Wagg &amp; Co. in 1921</td>
</tr>
<tr>
<td>Boulton Brothers &amp; Co.</td>
<td>1907 to 1924</td>
</tr>
<tr>
<td>39 Old Broad Street, London, EC</td>
<td></td>
</tr>
<tr>
<td>Arthur H. Brandt &amp; Co. [Old Firm]</td>
<td>1899 to 1924</td>
</tr>
<tr>
<td>39 Lime Street, London, EC</td>
<td></td>
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<tr>
<td></td>
<td>German origins. Established in London in 1899. Arthur Brandt died in August 1923, but his firm was continued by the remaining partners. In October 1924, the firm was acquired by London &amp; Foreign Banking Corporation</td>
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<th>Firm</th>
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<tr>
<td><strong>Arthur H. Brandt and Company</strong>&lt;br&gt; [New Firm]&lt;br&gt;158 Fenchurch Street,&lt;br&gt;London, EC3</td>
<td><strong>1924 to 1930</strong>&lt;br&gt;Incorporated as an unlimited company on 8 November 1924 with London &amp; Foreign Banking Corporation as the principal shareholder (80%). Special Resolution for Member’s Voluntary Winding-up on 18 December 1930. Finally dissolved on 2 October 1953.</td>
</tr>
<tr>
<td><strong>Wm. Brandt’s Sons &amp; Co.</strong>&lt;br&gt;4 Fenchurch Avenue,&lt;br&gt;London, EC</td>
<td><strong>1858 to 1975</strong>&lt;br&gt;German mercantile family trading to Russia. Emmanuel Henry Brandt, William’s brother, was the London agent from 1807 as E. H. Brandt &amp; Co.&lt;br&gt;In 1858 an independent branch of the Russian firm was established in London as Wm. Brandt’s Sons &amp; Co., extending its business to Argentina, Germany and North America. In 1886 the Calcutta house of C. Scholvin &amp; Co. was acquired but was closed in 1892. After 1918 the firm diversified into foreign exchange business and resumed timber trading.&lt;br&gt;In 1952 the firm was converted to a limited company. In 1965 National &amp; Grindlays Bank acquired two-thirds of the equity. After property losses in the secondary banking crisis of 1975, Grindlays Bank strengthened its control and as a result Brandts was expelled from the Accepting Houses Committee.</td>
</tr>
<tr>
<td><strong>Brown Shipley</strong>&lt;br&gt;Founders Court,&lt;br&gt;Lothbury,&lt;br&gt;London, EC</td>
<td><strong>c.1800 to Present</strong>&lt;br&gt;The firm can trace its origins to Alexander Brown, an Irish linen merchant in Baltimore in the USA about 1800. His son founded the Liverpool house in 1810 as William Brown &amp; Co., becoming the leading houses in the American trade especially cotton. An American, William Shipley, became a partner in 1825 and the firm was renamed Brown, Shipley &amp; Co. in 1837. In 1863 the firm started to withdraw from merchanting and opened an office in London, closing the Liverpool branch in 1888. The firm was mainly an acceptance house for the American trade. It also did foreign exchange and deposit banking. It had a West End branch for private clients mainly American between 1900 and 1955. In 1918 its inter-locking partnership with Brown Brothers in the USA ended. Between the wars the firm had little exposure to central Europe. It was involved in financing the wool, timber and fur trades. It adopted limited liability in 1946. In 1993 it sold its merchant banking business to Guinness Mahon, continuing as an investment management house.</td>
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<tr>
<td>Chalmers, Guthrie &amp; Co. Ltd.</td>
<td>c.1820 to 1927</td>
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<tr>
<td>[Old Firm]</td>
<td>David Charles Guthrie (1788–1859) co-founded the firm in Dundee and London in c.1820. In 1865 his son, Arbuthnot Charles Guthrie, acquired Torosay Castle on the island of Mull, which became the family estate. The original partnership was incorporated in August 1899 when the firm’s business was based in London, Guatemala and Columbia. In 1926 Chalmers &amp; Guthrie (Merchants) Ltd. was formed to acquire the merchanting business. The original firm held 59% of the capital, but in 1927 it was wound-up voluntarily. Patrick Reginald Chalmers later wrote a novel, <em>The Golden Bee</em>, based on his time with the firm.</td>
</tr>
<tr>
<td>9 Idol Lane, London, EC</td>
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<tr>
<td>From 4 January 1926:</td>
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<tr>
<td>South Sea House, 37 Threadneedle Street,</td>
<td></td>
</tr>
<tr>
<td>London</td>
<td></td>
</tr>
<tr>
<td>Chalmers, Guthrie &amp; Co. Ltd.</td>
<td>1927 to 1938</td>
</tr>
<tr>
<td>[New Firm]</td>
<td>New company formed with the same name as original and was based at the original address. None of the directors of the old firm transferred to the new firm. The firm became an issuing house. It managed issues for R. M. C. Textiles (1928) Ltd. in 1928, Trowbridge Tyre &amp; Rubber Company (1929) Ltd in 1929 and Hickson, Lloyd &amp; King Ltd. in 1930. After 1931 there were various directors appointed usually for short periods. In April 1931 a 25,000 debenture was raised, which resulted in receivership in October 1932. By November 1938 the debt was satisfied, but the company was dissolved by May 1938.</td>
</tr>
<tr>
<td>9 Idol Lane, London, EC</td>
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Chaplin, Milne, Grenfell & Co. Ltd. 1898 to 1914

Originally the Anglo-American house of Morton, Rose & Co., which was severely impacted by the Barings crisis of 1890. It reconstituted itself as Chaplin, Milne, Grenfell & Co. Ltd. in 1898. It suspended payments in June 1914 as a result of speculation in mainly Canadian securities. Arthur Grenfell was a member of the Grenfell banking family. He married the daughter of Earl Grey, the Governor General of Canada. He also the principal shareholder in the Canadian Agency, an issuing and finance house for mainly Canadian securities, which also failed in 1914.

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<tr>
<th>Firm</th>
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<tbody>
<tr>
<td>Close Brothers &amp; Co.</td>
<td>1878 to Present</td>
</tr>
<tr>
<td>7, 9 &amp; 11 Moorgate,</td>
<td>William Brooks Close founded the business in 1878, initially providing</td>
</tr>
<tr>
<td>London, EC</td>
<td>farm mortgages in Iowa, and later financing the first railway in Alaska.</td>
</tr>
<tr>
<td>From c.1928:</td>
<td></td>
</tr>
<tr>
<td>No. 9 Clements Lane,</td>
<td>The firm closed its Chicago office in 1921.</td>
</tr>
<tr>
<td>London EC4</td>
<td>In his will W. B. Close directed that Close Brothers should be wound up</td>
</tr>
<tr>
<td></td>
<td>and a new company created with the same name. Half the unquoted</td>
</tr>
<tr>
<td></td>
<td>investments held by the original company were transferred to his</td>
</tr>
<tr>
<td></td>
<td>estate. The voluntary liquidation occurred in 1924.</td>
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<tr>
<td></td>
<td>Arthur Martens became a director in 1934. He conceived the idea of a</td>
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<tr>
<td></td>
<td>public company that would consolidate smaller independent gas</td>
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<tr>
<td></td>
<td>companies. The firm formed the South Western Gas Corporation.</td>
</tr>
<tr>
<td></td>
<td>From 1935 until after the Second World War when the industry was</td>
</tr>
<tr>
<td></td>
<td>nationalised, the firm managed various gas and electricity companies.</td>
</tr>
<tr>
<td></td>
<td>The firm was a founder member of the Issuing Houses Association in 1946.</td>
</tr>
<tr>
<td></td>
<td>In 1973 it was acquired by Consolidated Gold Fields. In 1978 there was</td>
</tr>
<tr>
<td></td>
<td>a management buy-out. In 1982 the firm acquired a Stock Exchange</td>
</tr>
<tr>
<td></td>
<td>quotation.</td>
</tr>
<tr>
<td>Culland Company Limited</td>
<td>1921 to 1943</td>
</tr>
<tr>
<td>11 Throgmorton Avenue,</td>
<td>Established in 1921 as a private banking and financial house,</td>
</tr>
<tr>
<td>London, EC</td>
<td>converting to an unlimited company in 1922. The partners were stock</td>
</tr>
<tr>
<td></td>
<td>jobber with particular expertise in oil shares. In 1922 it purchased</td>
</tr>
<tr>
<td></td>
<td>the bulk of the Royal Dutch Company’s holding in the Shell Transport</td>
</tr>
<tr>
<td></td>
<td>&amp; Trading Company for £5.7m. It also had interests in various mining</td>
</tr>
<tr>
<td></td>
<td>companies. The novelist, Ian Fleming, worked for the company in 1933.</td>
</tr>
<tr>
<td></td>
<td>In 1935 the firm became limited company. In 1943 Morgan Grenfell agreed</td>
</tr>
<tr>
<td></td>
<td>to take over its business and in 1944 put the company into voluntary</td>
</tr>
<tr>
<td></td>
<td>liquidation.</td>
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(continued)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Profile</th>
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</thead>
<tbody>
<tr>
<td><strong>Cunliffe Brothers</strong></td>
<td>1890 to 1920 In 1890 Walter Cunliffe and his two brothers Arthur and Leonard founded the merchant bank Cunliffe Brothers. On his father’s death in 1895, he came into a substantial fortune. This fortune should have increased both his ability to do business and the stature of his house. Nevertheless, Cunliffe Brothers was never a front-rank firm, and on 1 January 1920—five days before his death—it was absorbed by the merchant bank Frühling and Goschen, which became the new house of Goschens &amp; Cunliffe (which failed in December 1939). Lord Cunliffe was Governor of the Bank of England from 1913 to 1918, during the critical World War I era. He was created 1st Baron Cunliffe in 1914</td>
</tr>
<tr>
<td>2 White Lion Court,</td>
<td></td>
</tr>
<tr>
<td>Cornhill, London, EC</td>
<td></td>
</tr>
<tr>
<td><strong>Dawnay, Day &amp; Co. Ltd.</strong></td>
<td>1928 to 1950 The firm was founded in 1928 by Major-General Dawnay and Major Day. It was initially an issuing house, but in the early 1930s became involved in reorganising the gas industry. South Eastern Gas Corporation was launched in 1932 by the firm and Edward de Stein and Co. The new company had control of several local gas companies. Similar ventures were formed with the Severn Valley Gas Corporation, Gas Consolidation and Palatine Gas Corporation. Major-General Dawnay was chairman in 1925–1929 of the troubled British Celanese Company and in 1929–1936 of the armaments and engineering company Armstrong Whitworth. He had an important role in the industrial rationalisation movement. In 1934 the firm launched the Investors General Fixed Trust with a portfolio of companies in the gas and electrical industries. It launched five other fixed trusts in the 1930s. In 1936 it launched Investors Flexible Trust, a managed unit trust. In 1937 close interests of Dawnay, Day and Co. acquired Fifteen Moorgate Unit Trusts. In 1950 the firm became an investment trust and transferred its finance business to Edward de Stein and Co.</td>
</tr>
<tr>
<td>54 Threadneedle Street,</td>
<td></td>
</tr>
<tr>
<td>London, EC2</td>
<td></td>
</tr>
<tr>
<td><strong>To c.1932:</strong></td>
<td></td>
</tr>
<tr>
<td>15 Moorgate, London,</td>
<td></td>
</tr>
<tr>
<td>EC2</td>
<td></td>
</tr>
<tr>
<td><strong>From c.1932:</strong></td>
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</tbody>
</table>
Firm | Profile
---|---
**Dent, Palmer & Co.**  
1 Gresham House, London, EC | 1835 to 1923  
In 1835 Thomas Dent joined a firm which became known as Palmer, Mackillop, Dent & Co. In 1858 John Horsley Palmer, a former governor of the Bank of England (1830–33), as was his son Edward Howley Palmer (1877-9), and James Mackillop retired from the firm. The remaining partners continued the business as Dent, Palmer & Co.  
In 1923 the firm was declared bankrupt because of the withdrawal of £73,000 by a partner, Nicolas Middard. The firm was also sued by N. M. Rothschild & Sons for defaulting on the payment to the bondholders of an Ottoman Loan. The goodwill of the bankrupt firm was purchased from the liquidator in 1923 for £1000 by S. B. K Harrison and two other investors. However, Harrison had financial difficulties that led to the collapse of a Lloyds syndicate managed by Harrison, Reid & Co. Ltd. The new partnership in Dent, Palmer & Co. was therefore wound up in shortly after establishment.

**de Pury, Gautschi & Co.**  
*To 1919:*  
17 St Helen’s Place, London, EC  
*From 1920:*  
25 College Hill, London, EC | 1903 to c.1923  
The de Pury family were of Huguenot origins from Neuchatel, Switzerland. David de Pury and his son Hermann E. de Pury were in business in London from the late nineteenth century until 1902 as de Pury, Son and Co. The firm de Pury, Gautschi & Co was formed on the retirement of David de Pury and the admission of George G. Gautschi to the partnership in 1903. When Hermann E. de Pury retired from the firm in 1909, George G. Gautschi became the general partner. He had three limited partners. There were family links in the partnership. Henry Durler’s sister married George G. Gautschi and Alexander Ingham Whitaker married David de Pury’s daughter - both Durler and Whitaker were partners in the firm.  
George G. Gautschi was also a silversmith with a registered hallmark. Henry Durler had a successful business in Luton as a straw plait merchant and bleacher. His son became a director of the chemical firm Laporte in 1928. Alexander Ingham Whitaker was the owner of Grayshott Hall in Surrey until 1927. George G. Gautschi died in 1919 and was succeed in the partnership by his widow. The firm was included in the Bankers’ Returns from 1914 to 1923, but the business seems to have ceased in the early 1920s.
<table>
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<tr>
<th>Firm</th>
<th>Profile</th>
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<tbody>
<tr>
<td>Edward de Stein &amp; Co.</td>
<td>1925 to 1960&lt;br&gt;The firm was established in 1925 and specialised in new issues and investment trusts&lt;sup&gt;61&lt;/sup&gt;&lt;br&gt;De Stein himself was a director of the Columbia Graphophone Company from about 1920 and was involved with its merger in 1931 with the Gramophone to form Electric and Musical Industries Ltd. (later EMI Ltd.). He was chairman of tobacco manufacturers Gallaher Ltd. of Belfast, following his organization of a syndicate to acquire the business from its founding family in 1928. He was also chairman of the finance house Mercantile Credit from the early 1930s to the 1950s, at a time of its expansion into hire purchase&lt;br&gt;The firm acquired the finance business of Dawnay Day in 1950. Later in 1960 the firm merged with Lazard Brothers, Edward de Stein died in 1965&lt;sup&gt;62&lt;/sup&gt;</td>
</tr>
<tr>
<td>Samuel Dobrée &amp; Sons</td>
<td>c.1720 to 1929&lt;br&gt;The firm originated in Guernsey in the early eighteenth century and later transferred to London in about 1720&lt;br&gt;Member of the International Financial Society issuing consortium in 1863&lt;sup&gt;63&lt;/sup&gt;&lt;br&gt;In 1914 this firm was one of the oldest mercantile firms in the City. The last partners from the Dobrée family were Bonmay Dobrée, who died in 1907, and his son Harry Hankey Dobrée, who died in 1908. Bonmay was a director of the London &amp; Westminster Bank for 50 years. His father was Governor of the Bank of England in 1859&lt;sup&gt;64&lt;/sup&gt;&lt;br&gt;By 1927 the firm had a global mercantile business dealing in a range of commodities, but underwent a reconstruction including the formation of a new department for securities issuance&lt;br&gt;The firm became bankrupt in 1929</td>
</tr>
<tr>
<td>Dunn, Fischer &amp; Co.</td>
<td>1905 to 1914&lt;br&gt;Established in 1905, but effectively ceased in 1914&lt;sup&gt;65&lt;/sup&gt;&lt;br&gt;James Dunn became a major Canadian financier and industrialist during the interwar period</td>
</tr>
<tr>
<td><strong>Firm</strong></td>
<td><strong>Profile</strong></td>
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</tr>
<tr>
<td>Erlangers</td>
<td>1859 to 1959 Traces its origins to the Erlanger family of Frankfurt. In 1859 Emile Erlanger established Emile Erlanger &amp; Co. in Paris, specialising in the issue of bonds for sovereign clients. It worked closely with J. Henry Schroder &amp; Co. In 1870 a London branch was opened, and the focus of the firm shifted from Paris. The firm was involved in both bond issuance and acceptance finance. The firm became known as Erlangers from 1917 and became a private limited company in 1928. In the 1930s it specialised in corporate finance for British industry. In 1959 it merged with Philip Hill, Higginson &amp; Co. Ltd. to form Philip Hill, Higginson, Erlangers Ltd., which in 1965 merged with M. Samuel &amp; Co. Ltd. to form Hill Samuel &amp; Co. Ltd. Same address as Robert Fleming &amp; Co. in 1914. Included in Bankers' Return for 1914–1928.</td>
</tr>
<tr>
<td>O. T. Falk &amp; Company</td>
<td>1932 to 1934 Five stockbrokers resigned from Buckmaster &amp; Moore to form this firm in February 1932. O.T. Falk was a well-known commentator on economic issues. He was a director of the merchant bank Chalmers Guthrie between 1925 and 1928. The firm was dissolved in September 1934. In 1937 O. T. Falk formed Power Jets Ltd. to finance the development of the Whittle jet engine. The company was later nationalised.</td>
</tr>
<tr>
<td>M. &amp; F. Feuchtwanger</td>
<td>c.1934 Part of a Jewish banking family. This firm was established in London by the brothers Moritz and Fritz.</td>
</tr>
<tr>
<td>Robert Fleming &amp; Co.</td>
<td>1873 to 2000 The firm was established in Dundee in 1873 and moved to London in 1909. Robert Fleming was known as the ‘father of the investment trust’. The firm had few interests outside of the USA before the First World War. In 1970, Robert Fleming entered into an investment banking joint venture with Hong Kong based Jardine Matheson, forming Jardine Fleming. In April 2000, Robert Fleming Holdings was sold to Chase Manhattan Bank for $7.7 billion.</td>
</tr>
</tbody>
</table>
APPENDIX 373

Firm | Profile
---|---
Frühling & Goschen | 1814 to 1920
12 Austin Friars, London, EC
The firm was established in London in 1814 by a German merchant, W. H. Goschen, to act as commission agents exporting colonial produce and cotton to Germany. His son Viscount Goschen became Chancellor of the Exchequer.
The firm later acted as merchants and foreign bankers. It was a member of the International Financial Society issuing consortium in 1863.
On 1 January 1920, Cunliffe Brothers was absorbed by Frühling and Goschen, which became the new house of Goschens & Cunliffe.

Antony Gibbs & Sons | 1808 to 1980
22 Bishopsgate, London, EC
The firm was established in London in 1808. The business was mainly focused on Latin America, becoming the leader in production and marketing of nitrate. From 1887 it broadened its business into bond issuance, private banking and acceptance finance. Later expanding into Australia.
In 1918 the nitrate trade collapsed, and the firm fell back on its other businesses and diversified away from Latin America. It expanded into insurance broking and established a significant timber trading business especially in Australia.
After the Second World War the different partnerships were reorganised into limited companies. In 1972 the Hong Kong & Shanghai Banking Corporation acquired 20%, obtaining full ownership in 1980.

John K. Gilliat & Co. | 1786 to 1944
7 Crosby Square, London, EC
In 1786 the brothers John and Thomas Gilliat established the firm in Virginia and London. In the mid-nineteenth century the firm became John K. Gilliat & Company, a merchant banking company that traded in England and America.
In 1944 the firm was acquired by Arbuthnot Latham & Co. Ltd.

Goschens & Cunliffe | 1920 to 1940
12 Austin Friars, London, EC
New partnership formed on the merger of Cunliffe Brothers and Frühling & Goschen. The firm ceased trading in 1940. H. K. Goschen became a partner of Antony Gibbs and Sons in 1947.

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<table>
<thead>
<tr>
<th>Firm</th>
<th>Profile</th>
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</table>
| Grace Brothers & Co. Ltd.    | **1876 to 1937**  
144 Leadenhall Street, London, EC  
W. R. Grace & Co. was founded in Peru in 1854 by William Russell Grace. The company set up head office operations in New York City in 1865. It would become a major merchant shipper, and established the Grace National Bank, forerunner of Marine Midland Bank, in 1914. It continues today as specialist chemicals and materials conglomerate. The merchant banking affiliate of the W. R. Grace & Co. was established in Peru in 1876 by William R. Grace and his brother Michael. It had developed from a ship’s chandler business called Bryce & Co. Michael Grace started to spend more time in England from which the London merchant bank evolved. In 1937 Grace Brothers & Co. discontinued its banking business. |
| Guinness Mahon & Co.         | **1836 to 1998**  
81 Lombard Street, London, EC  
Founded in Dublin in 1836. Opened an agency in London in 1879. During the First World War, the London business became moribund. The partnership was restructured in 1923. Walter Ffennell of Wogau & Co. became a partner, although the firms continued to operate separately. A corporate partner, Erin Trust Limited, was included from 1925. In 1939 it acquired Wogau & Co. and the London Merchant Bank. In February 1942 the partnership was transformed into a private company. In 1972 Guinness Mahon merged with one of the City’s large commodity traders and merchants, Lewis & Peat. The combined group became known as Guinness Peat. Guinness Mahon was acquired by the Bank of Yokohama in 1991 and later sold to Investec in 1998. |
| Haarbleicher & Schumann      | **1867 (?) to 1918 (?)**  
144 Leadenhall Street, London, EC  
Earliest record found of “John Samuel Haarbleicher, of No. 140, Leadenhall-street, in the City of London, Merchant, and Johann Ludwig Schumann” is dated 1867. Became Harker, Martin & Tilbrook in 1917 and Peddle, Harker & Martin in 1918. Described as Foreign Bankers. Same address as Grace Brothers & Co. Ltd. Described as Banking and Discount Agents in Bankers’ Return for 1914. |
<table>
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<tr>
<th>Firm</th>
<th>Profile</th>
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<tbody>
<tr>
<td>C. J. Hambro &amp; Son</td>
<td>1839 to 1998</td>
</tr>
<tr>
<td>70 Old Broad Street, London, EC</td>
<td>The firm originated as the London branch of the J. C. Hambro &amp; Son of Copenhagen, which was established in c.1800. It amalgamated with the British Bank of Northern Commerce Ltd. in 1920 and eventually was known as Hambros Bank. It was a specialist in Anglo-Scandinavian business with expertise in trade finance and investment banking. It was the sole banker to the Scandinavian kingdoms for many years. In 1986, the Hambro Trust, established in 1929 and the majority shareholder in the bank, was dissolved and the family went their separate ways. In February 1998 the bank was sold to the French bank Société Générale.</td>
</tr>
<tr>
<td>Lionel Hardinge &amp; Company</td>
<td>c.1934</td>
</tr>
<tr>
<td>127 Fenchurch Street, London, EC3</td>
<td>The only information about this firm is an advertisement in <em>The Times</em> on 14 December 1934 that stated: “Lionel Hardinge &amp; Company, Merchant Bankers. Undertake the financing of Industrial Enterprises in the stages imminent to their conversion into Public Companies. Also, the Underwriting of First Class Industrial Issues.”</td>
</tr>
<tr>
<td>G. Haswell Veitch &amp; Co.</td>
<td>c.1923</td>
</tr>
<tr>
<td>1 Cornhill, London, EC3</td>
<td>The only information about this firm is an advertisement in <em>The Times</em> on 30 December 1934 that stated: “Merchant Bankers. New Issues of Capital for established British and other Undertakings. Purchase and Sale of British and other Securities. Underwriting of approved Capital Issues.”</td>
</tr>
<tr>
<td>Helbert, Wagg &amp; Co.</td>
<td>1804 to 1962</td>
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<th>Firm</th>
<th>Profile</th>
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<tbody>
<tr>
<td><strong>Higginson &amp; Co.</strong></td>
<td>1907 to 1950</td>
</tr>
<tr>
<td>1 Bank Buildings,</td>
<td>London house of Lee, Higginson &amp; Co. of Boston, USA</td>
</tr>
<tr>
<td>Princes Street,</td>
<td>Lee, Higginson &amp; Co. was established in the 1840s. The firm collapsed in the Swedish match</td>
</tr>
<tr>
<td>London, EC</td>
<td>scandal in 1932</td>
</tr>
<tr>
<td><em>From 1917:</em></td>
<td>The London house continued in business after failure of the American firm in 1932</td>
</tr>
<tr>
<td>80 Lombard Street,</td>
<td>It was acquired by the Philip Hill Investment Trust in 1950. The merged firm was known as Philip</td>
</tr>
<tr>
<td>London, EC3</td>
<td>Hill, Higginson &amp; Co. Ltd.</td>
</tr>
<tr>
<td></td>
<td>In 1959 it merged with Erlangers to form Philip Hill, Higginson, Erlangers Ltd., which in 1965</td>
</tr>
<tr>
<td></td>
<td>merged with M. Samuel &amp; Co. Ltd. to form Hill Samuel &amp; Co. Ltd.</td>
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<tr>
<th><strong>Philip Hill &amp; Partners Ltd.</strong></th>
<th>1932 to 1965</th>
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<tbody>
<tr>
<td>55–56 Pall Mall</td>
<td>In 1929 Philip Hill became a director of the Eagle Star Insurance Company. With the support of</td>
</tr>
<tr>
<td>London, SW1</td>
<td>Eagle Star’s chairman, Sir Edward Mountain, in 1932–1933 he set up Philip Hill &amp; Partners</td>
</tr>
<tr>
<td></td>
<td>In 1950, it merged with Higginsons to form Philip Hill, Higginson &amp; Co. Ltd.</td>
</tr>
<tr>
<td></td>
<td>In 1959 it merged with Erlangers to form Philip Hill, Higginson, Erlangers Ltd., which in 1965</td>
</tr>
<tr>
<td></td>
<td>merged with M. Samuel &amp; Co. Ltd. to form Hill Samuel &amp; Co. Ltd.</td>
</tr>
</tbody>
</table>

| **L. Hirsch & Co.**         | c.1880 to 1923                                                           |
| Wernford Court, Throgmorton | Baruch Hirch and his three sons Leopold, Adolph and Heinrich left Germany in 1880s and founded |
| Street, London, EC          | the firm in London. It was mainly involved in South African goldmines and English coalmines |
| *From 10 Nov. 1919:*        | Leopold Hirsch became the broker to Wernher, Beit & Co. in the 1890s. One of the partners was |
| 233 Salisbury House,        | the brother of Sigismund Neumann                                        |
| London, EC                  | Included in Bankers’ Return for 1914. A partner, Thomas Lowinsky, moved to the stockbroking |
|                            | firm of Hirsch, Stokes & Wilson in 1923. L. Hirsch & Co. ceased to operate at the end of 1923 |
Firm | Profile
---|---
Andrew Holt and Company | c.1924 to 1929
7 Gracechurch Street, London, EC3
317 Power Building
Montreal, Canada
Sir Herbert Samuel Holt (1856–1941) was an Irish-born Canadian civil engineer who became a businessman, banker, and corporate director with a ruthless business reputation. He was President of the Royal Bank of Canada; Montreal Light, Heat & Power, and a director of some 250 companies worldwide, with assets valued at around $200 million.
His son Major Andrew Paton Holt succeeded his father in many of his business ventures in Montreal. He became a director of Brazilian Traction Light and Power Company in 1924.
Little is known about his firm. It advertised in *The Times* in 1929 as a merchant bank based in London and Montreal.

Horstman & Co. | 1802 to 1928
2 Crosby Square, London, EC
German. Established in London in 1802 by John Horstman. By the mid-nineteenth century, the firm’s senior partner was Adolf Deichmann; a member of the family that owned one of Germany’s most prestigious private banks, Deichmann & Co. On his death in 1907, his second wife, Baroness von Deichmann (née Hilda Elizabeth de Bunsen), became the owner of the firm. Her daughters also held loan stock in the firm.
It was a founder member of the Accepting Houses Committee. In 1921 it owed the Bank of England £400,000 for advances on pre-moratorium bills. But it was regarded a German firm and was unable to continue in business. In 1928 it was sold to a newly created private company called J. Horstman and Co. Limited.

J. Horstman and Co. Ltd. | 1928 to 1929
48 Bishopsgate, London, EC2
The old firm was sold on 19 December 1928 to a newly created private company called J. Horstman and Co. Limited. Albert Johan Fransella was a director of the new firm as well as J. C. im Thurn & Sons Ltd.
The firm failed in 1929 as a consequence of heavy losses incurred through a series of fraudulent transactions.
<table>
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<tr>
<th>Firm</th>
<th>Profile</th>
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</thead>
<tbody>
<tr>
<td>Frederick Huth &amp; Co.</td>
<td>1809 to 1928</td>
</tr>
<tr>
<td>[Old Firm]</td>
<td>The company was founded by Frederick Huth, a German merchant, in 1809. Member of the International Financial Society issuing consortium in 1863. Huths experienced financial difficulties during the First World War and in 1921 received assistance from the Bank of England. In 1922 the firm merged with König Brothers. The old Huths firm was incorporated in March 1928 in the name of Cordillera Investments Ltd., with Acorn Trust taking 415 non-voting shares and the Bank of England 415 voting shares. Certain realisations were made in the 1930s and the proceeds used to reduce the outstanding debt to the Bank. From 1912–1924 the firm had a fur warehouse at 64 Park Street, Southwark, and from 1925 to 1936 at 58–60 Cannon Street.</td>
</tr>
<tr>
<td>12 Tokenhouse Yard,</td>
<td></td>
</tr>
<tr>
<td>London, EC</td>
<td></td>
</tr>
<tr>
<td>Frederick Huth &amp; Co.</td>
<td>1922 to 1936</td>
</tr>
<tr>
<td>[New Firm]</td>
<td>In 1922 the old Huth firm merged with König Brothers. Huths was wound up in 1936 and the surviving business transferred to the British Overseas Bank.</td>
</tr>
<tr>
<td>J. C. im Thurn &amp; Sons</td>
<td>1844 to 1925</td>
</tr>
<tr>
<td>[Old Firm]</td>
<td>The firm was founded in 1844 by John Conrad im Thurn. In 1875 it suspended payments with gross liabilities of £3m, including acceptances of £2m. The business later recovered. In 1914 there were four partners: two sons of the founder and their sons. In 1914 John Conrad im Thurn, Jnr. was a director of the British Bank of South America, and Argentine utility companies. He resigned from the bank in 1919 due to “pressure of private engagements”. In 1921 J. R. Warren became a partner. In 1923 Arthur Ladenburg joined the firm, amalgamating the business of W. Ladenburg &amp; Co. Albert Johan Fransella joined the firm in May 1924. Fransella, Ladenburg and Warren were the only partners in the Bankers’ Return in February 1925. The firm was dissolved in December 1925 and a new limited company formed.</td>
</tr>
<tr>
<td>1 East India Avenue,</td>
<td></td>
</tr>
<tr>
<td>London, EC</td>
<td></td>
</tr>
<tr>
<td>By 1925:</td>
<td></td>
</tr>
<tr>
<td>17 Throgmorton Avenue,</td>
<td></td>
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<tr>
<td>London, EC2</td>
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<th>Firm</th>
<th>Profile</th>
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<tbody>
<tr>
<td>J. C. im Thurn &amp; Sons Ltd.</td>
<td>1925 to 1962</td>
</tr>
<tr>
<td>[New Firm]</td>
<td>The new firm continued after the liquidation of the old firm, although there was no connection between the two</td>
</tr>
<tr>
<td>37 Threadneedle Street</td>
<td>The directors sat on the boards of various investment trusts. For instance, J. N. Buchanan was a director of the Industrial Finance and Investment Corporation Limited in 1928</td>
</tr>
<tr>
<td>From July 1937:</td>
<td>The company was wound-up voluntarily in 1962¹⁰⁸</td>
</tr>
<tr>
<td>14 Finsbury Circus,</td>
<td></td>
</tr>
<tr>
<td>London, EC2</td>
<td></td>
</tr>
<tr>
<td>S. Japhet &amp; Co.</td>
<td>1896 to 1986</td>
</tr>
<tr>
<td>20 Copthall Avenue,</td>
<td>German brokerage firm that opened a branch in London in 1896. In 1900 it moved to London.</td>
</tr>
<tr>
<td>London, EC</td>
<td>The firm concentrated on broking and arbitrage, but in 1919 moved to merchant banking from stockbroking¹⁰⁹</td>
</tr>
<tr>
<td>1 Shorter’s Court,</td>
<td>The firm was acquired by the Charterhouse Group in June 1954, becoming Charterhouse Japhet</td>
</tr>
<tr>
<td>Throgmorton Street,</td>
<td></td>
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<tr>
<td>London, EC</td>
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<tr>
<td>A. Keyser &amp; Co.</td>
<td>1868 to 1981</td>
</tr>
<tr>
<td>21 Cornhill,</td>
<td>The firm was established by Samuel Montagu (later Lord Swaythling), in addition to S. Montagu &amp; Co., to provide roles for some of his sons who, by virtue of their numbers, could not become partners in S. Montagu.¹¹⁰ The firm was controlled by Samuel Montagu until 1908 when it became independent. Assur Keyser retired from the firm in 1890¹¹¹</td>
</tr>
<tr>
<td>London, EC</td>
<td>During the interwar period the firm was mainly concerned with securities arbitrage between Paris, Oslo, New York and London.¹¹² It became a private company in 1946</td>
</tr>
<tr>
<td>31 Throgmorton Street</td>
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<tr>
<td>London, EC2</td>
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<tr>
<td>Firm</td>
<td>Profile</td>
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<tr>
<td><strong>Kleinwort, Sons &amp; Co.</strong></td>
<td><strong>1855 to 1995</strong> &lt;br&gt;20 Fenchurch Street, London, EC</td>
</tr>
<tr>
<td><strong>Knowles &amp; Foster</strong></td>
<td><strong>1826 to 1965</strong> &lt;br&gt;48 Moorgate Street, London, EC</td>
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<tr>
<th>Firm</th>
<th>Profile</th>
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<tr>
<td>König Brothers</td>
<td><strong>c.1914 to 1922</strong> Fritz König was the deceased father of the two brothers who were the partners in Königs. He provided capital for the firm for a period of five years, after which it was due to be distributed to the beneficiaries of their father’s will, including foreign beneficiaries—German and American. On 30 December 1922, the Bank of England entered into a secret agreement with the Board of Trade and König Brothers. The firm was to be merged with Huths and provide a capital injection in return for official assurances that foreign claims would not be allowed.</td>
</tr>
<tr>
<td></td>
<td><strong>Later:</strong> 1 St Michael’s Alley, Cornhill, London, EC</td>
</tr>
<tr>
<td></td>
<td><strong>Later:</strong> Leopold Joseph &amp; Sons</td>
</tr>
<tr>
<td></td>
<td><strong>18 St Helen’s Place, London, EC3</strong></td>
</tr>
<tr>
<td>W. Ladenburg &amp; Co.</td>
<td><strong>1785 to 1923</strong> Established in 1785. The firm went into liquidation in 1923 owing the Bank of England about £300,000 on pre-moratorium acceptance advances. Arthur Ladenburg became a partner in J. C. im Thurn, but this partnership was dissolved in 1925. In 1926 he proposed starting an issuing house under the old name of W. Ladenburg, but it was not a success and the business was sold to the Sanctuary Trust. He remained in the firm on a salaried basis. Henry Ladenburg died in 1933 leaving an estate of £100. The liquidation of the firm was completed in 1939, the debt to the Bank being some £190,000.</td>
</tr>
<tr>
<td></td>
<td><strong>Later:</strong> 10 Angel Court, London, EC</td>
</tr>
<tr>
<td></td>
<td><strong>18 St Helen’s Place, London, EC3</strong></td>
</tr>
</tbody>
</table>
**Firm** | **Profile**
---|---
Lazard Brothers & Co.  
40 Threadneedle Street,  
London, EC | 1870 to Present

Lazard’s roots began in the 1840s with the emigration of five French brothers and several cousins to the United States. In 1848 Lazard Frères & Co. was founded in New Orleans as a dry goods merchant. By 1851, Lazard Frères had moved to San Francisco, where it would expand into banking and foreign exchange. In the same year, one of the brothers opened a New York office. In 1854, Lazard Frères opened an office in Paris, and in 1870 one in London. The firm evolved into the three ‘Houses of Lazard’.

In 1920 arrangements were made by S. Pearson & Sons to buy 40% of the firm from the French partners, bringing English shareholders’ interests to 53%. In 1931 further purchases by S. Pearson & Sons increased its holding to 80% with the French firm owning 20%.

In July 1931, irregularities were discovered in the London firm’s Brussels branch, which indicated net liabilities of £5.85m. The Bank of England lent £3m to S. Pearson & Sons to rescue the firm. As part of this rescue all foreign offices of the London firm were to be closed.

H. S. Lefevre & Co.  
16 Bishopsgate,  
London, EC | c.1790 to 1949

In the nineteenth century, the firm became closely associated with the commercial enterprises of Baron Ludwig Knoop, including De Jersey & Co. in Manchester. The firm later became involved in Canadian and US railway securities.

Although Gaspard Farrer joined Barings in 1902 and remained with them until 1925, he remained a partner in this firm and even returned to it after 1925.

In 1930 its foreign business was acquired by the British Overseas Bank. Due to succession problems, the sole surviving partner wound-up the firm in 1949.

(continued)
### Firm Profile

#### Gordon Leith & Co.
7 Lothbury, London, EC2
(From 1927, the European Merchant Banking Co. Ltd. operated from the same address)

- **1922 to 1927 and 1936–c.1941**
- Until 1922 Gordon Leith was a partner in Speyer Brothers. The new firm was established after the demise of Sir Edgar Speyer. It acted as the London agents for Speyer & Co., New York.
- In March 1927 Gordon Leith was taken into partnership with Kuhn, Loeb & Co. The firm, Gordon Leith & Co., was dissolved and the partners became directors of the European Merchant Banking Co. Ltd., representing Kuhn, Loeb & Co. in Europe. This arrangement was fairly loose and by 1936 Gordon Leith & Co. had been reformed.
- Gordon Leith died in 1941.

#### London Merchant Bank
38 Lombard Street, London, EC

- **1873 to 1939**
- Established in 1873 as the London & Hanseatic Bank Ltd. Severely damaged by the First World War, it was reorganised in 1916 as the London Merchant Bank Ltd.
- At the outbreak of the Second World War, it was transferred to Guinness Mahon & Co. It was later renamed London Merchant Securities.

#### Matheson & Co.
3 Lombard Street, London, EC

- **1848 to Present**
- The merchant house of Jardine, Matheson was founded in Canton in 1832. It developed a close relationship with the merchant banking house Magniac Smith & Co., which found itself in financial difficulties in 1847. A new merchant banking partnership was formed in 1848 by Alexander Matheson, who was also a partner in Jardine Matheson. The connection continues to the present.

#### Mediterranean Merchant Bank Limited

- **1920 to 1923 (Did not trade)**
- Incorporated on 10 February 1920
- Dissolved on 17 August 1923
- No evidence that it traded. Only 4 shares allotted.

#### Merchant Bank of Great Britain Limited

- **1885 to 1891[?], but before 1916 (Did not trade)**
- Incorporated on 7 January 1885
- Dissolved on 8 December 1891[?], but before 1916
- No evidence that it traded.
Mildred, Goyeneche & Co.
8 St Helen’s Place, London, EC
By 1921 at:
36 New Broad Street, London, EC
**Firm Profile**
1796 to 1921
The firm carried on business mainly in Spain, but also in South America and India. It acted as bankers to many important Spaniards, including Royalty, and was agent for the Bank of Spain. In 1920 it got into difficulties due to failure of Banco de Barcelona and elsewhere in Spain. It suspended payments in March 1921.130

Samuel Montagu & Co.
60 Old Broad Street, London, EC
1853 to 1974
Specialists in arbitrage or trafficking bills of exchange and currencies to take account of rates in different centres.31
Ernest Franklin’s two brothers were partners in A. Keyser & Co. After the death of its founder, Samuel Montagu, the firm was owned by a family trust, Montagu Trust. Midland Bank acquired a stake in the trust in 1967, and in 1974 acquired the firm.

Morgan, Grenfell & Co.
22 Old Broad Street, London, EC
1838 to 1989
George Peabody, a partner in Peabody Riggs and Company of Baltimore, established his own business as a merchant in London in 1838. He ended his association with the American firm in 1843. The firm was known as George Peabody and Company, merchants.
In 1854 Junius Spencer Morgan became a partner and upon Peabody’s retirement in 1864 the style of the firm became J. S. Morgan and Company.
Edward Grenfell became a full partner in 1904 and the style Morgan Grenfell was adopted on 1 January 1910. Between 1918 and 1934 the bank was a private unlimited company, and in 1934 it became a private limited company. In 1989 Morgan Grenfell was acquired by Deutsche Bank.

Morris, Prevost & Co.
25 Old Broad Street, London, EC
1822 to 1914
Established in the provinces in 1822, moving to London in 1838.132 August Provost was Governor of the Bank of England in 1901. Baring Brothers acquired the firm in 1914.33

(continued)
Firm | Profile  
---|---  
Nelke, Phillips & Co. | 1917 to 1921  
4 Moorgate Street, London, EC  
*By 1921 at:*  
9 Angel Court, London, EC  
The stockbroking firm of the same name was dissolved in April 1917 and the name transferred to a new firm of merchant bankers  
The business was wound-up in September 1921. The winding-up was handled by Cull & Co., where Hermann Marx became a partner  
Neumann, Luebeck & Co. | 1907 to c.1945  
241 to 250 Salisbury House, London Wall, London, EC  
Sigismund Neumann was born in 1857 in Bavaria, the son of a German Jew. He emigrated to South Africa in his late teens. In 1907 he established Neumann, Luebeck in the City with the former London manager of the Dresdner Bank  
Founding member of the Accepting Houses Committee  
Included in Bankers’ Return for 1945  
B. Newgass & Co. Ltd. | 1911 to 1937  
75 & 76 Lombard Street, London, EC  
Benjamin Newgass was a Liverpool banker who transferred his business to London. He had large American interests. The company was incorporated to take over the interests of Messrs B. Newgass & Co. in 1911. The company went into voluntary liquidation in 1937  
Ostrer Brothers | 1921 to 1927  
4 Broad Street Place London EC  
*From c.1925:*  
25–31 Moorgate  
London EC  
Isidore Ostrer set up the Lothbury Investment Corporation in 1919 and Ostrer Brothers Merchant Bank with two of his brothers, Maurice and Mark, in 1921. In the 1920s Ostrer Brothers were responsible for a number of company flotations, the most important of which were Amalgamated Textiles in 1920 and the Gaumont-British Picture Corporation in 1927. The coming of the ‘talkies’ encouraged Isidore to assume direct control of Gaumont-British. In August 1929 he became chairman, with Mark as vice-chairman and Maurice joint managing director. From 1927 Mark Ostrer became the sole partner in Ostrer Brothers. While the description of merchant bank was still used, the firm had essentially become a film production company by 1927
Parry, Murray & Co.
70 Gracechurch Street, London, EC

C.1800 to 1920 (withdrawal from banking)
The company was established in the late eighteenth century by Thomas Parry and made its name initially as a manufacturing and trading house in India. Parry Murray withdrew from banking in 1920 to concentrate on merchanting.

In 1937 John Robert Murray joined as a partner and registered Parry Murray as a company in London. In 1960 the firm began distributing hand woven fabrics for furnishings.

Pinto Leite & Nephews
45 Moorgate Street, London, EC

1846 to 1928
The firm commenced trading as a merchant in Manchester in 1846, but by 1890 had added a London-based banking operation. It was operating as an accepting house at the outbreak of war in 1914 and was included in Bankers’ Return for 1914.

In August 1922 it still owed the Bank of England £248,000 on pre-moratorium bills. It was given a special advance which was repaid within two years, but by 1926 the firm was declared bankrupt. In 1928 Knowles & Foster acquired the firm, but by the 1930s the Manchester operation was closed.

Ralli Brothers
35 Finsbury Circus, London, EC

1818 to 1959
The Ralli family, originally from the Greek island of Chios, was involved from the eighteenth century in the mercantile trade between the Levant and Europe with bases in several European and Mediterranean ports. In 1818, two brothers, John Stephen Ralli and Eustratio Stephen Ralli, established a firm in London. From 1826 it was based at 25 Finsbury Circus, where it remained for nearly 150 years to 1961.

The firm traded in cotton goods, and a Manchester branch was opened in 1827, a Calcutta branch in 1851, and a Bombay branch ten years later. In 1871 a branch was opened in New York, which was closed down in 1931, and the business hitherto was done through an agent. The firm remained a family partnership until 1931, when it became a private limited company, Ralli Brothers Limited. It became a public company in 1941, and in 1959 was taken over by General Guarantee Corporation Limited. In 1969/70 it was acquired by Slater Walker.
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<th>Firm</th>
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<tr>
<td><strong>R. Rapheal &amp; Sons</strong></td>
<td>1870 to 1983</td>
</tr>
<tr>
<td>2 Austin Friars,</td>
<td>Specialists in arbitrage or trafficking bills of exchange and currencies to take account of rates in different centres. In 1983 the banking business was sold to Frost Group, and the stockbroking continued as a specialist private client stockbroker.</td>
</tr>
<tr>
<td>London, EC</td>
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<tr>
<td><strong>Rathbone Brothers &amp; Co.</strong></td>
<td>1742 to Present</td>
</tr>
<tr>
<td>Royal Liver Building</td>
<td>The earliest record of the Rathbone business dates from 1742, although it is likely that the business was operating in Liverpool before that date. Originally merchant and shipbuilders, it developed a trading network across the Far East, Europe and the Americas. By the early nineteenth century most of the tea imported to Britain came through Rathbones. William Lidderdale, a partner in 1864–1898, was Governor of the Bank of England during the Barings Crisis in 1890. Rathbone Brothers is now one of the UK’s leading providers of investment management services for private clients, charities and professional advisers.</td>
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<tr>
<td>Pier Head</td>
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<td>Liverpool</td>
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<tr>
<td><strong>Rea, Warren and McLennan Limited</strong></td>
<td>1919 to 1999</td>
</tr>
<tr>
<td>3 St Helen’s Place</td>
<td>Rea, Warren and McLennan Ltd was incorporated on 17 December 1919. It adopted the name Rea Brothers in 1943. In 1950 it acquired the banking firm of Walter H. Salomon &amp; Co., which was established in London in 1938. The firm became a member of the Accepting Houses Committee in 1969. It was acquired by Close Brothers in 1999.</td>
</tr>
<tr>
<td>London, EC</td>
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<tr>
<td><strong>Reeves, Whitburn &amp; Co.</strong></td>
<td>1859 to 1938</td>
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<th>Firm</th>
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<tr>
<td>Rodocanachi, Sons &amp; Co.</td>
<td>1830 to 1930&lt;br&gt;The firm was started in 1830 as merchants and bankers with interests in shipping. It was included in the Bankers’ Return for 1914&lt;br&gt;After 1925 the Rodocanachi family were no longer connected with the firm. In February 1929 D. N. Copsides became a partner. He was later accused of reckless financial business that led to the bankruptcy of the firm in 1930, resulting from bad debts due from failed German and Italian trading partners</td>
</tr>
<tr>
<td>N. M. Rothschild &amp; Sons</td>
<td>1811 to Present&lt;br&gt;In the late eighteenth century and early nineteenth century, Mayer Amschel Rothschild rose to become one of Europe’s most powerful bankers in Europe. His sons started banking operations in the various capitals of Europe, including sending his third son, Nathan Mayer Rothschild, to England&lt;br&gt;Nathan Mayer Rothschild first settled in Manchester, where he established a business in finance and textile trading. He later moved to London, where he founded N.M. Rothschild &amp; Sons in 1811, making a fortune in the government bonds market&lt;br&gt;The First World War marked a change of fortune and emphasis for Rothschilds. After the War, the firm began a steady transition towards advisory work and securities issuance for commercial concerns. It continues in this role today</td>
</tr>
<tr>
<td>A. Rüffer &amp; Sons</td>
<td>1872 to 1946&lt;br&gt;The accepting house A. Rüffer was founded in 1872 and specialised in financing the Anglo-French and Belgian wool trade. It was a pre-moratorium acceptance debtor to the Bank of England. In 1922, recognising the need for longer-term support, the firm was incorporated as a limited company with the Bank of England taking £700,000 ordinary shares out of a total of just under £1 million in settlement of the firm’s debt&lt;br&gt;The Bank of England’s shares were held by the Securities Trust. Rüffers sustained losses in 1930 and 1931 but managed to survive until World War Two. Deteriorating conditions in France and Belgium, and the call-up of some of the directors made winding-up inevitable&lt;br&gt;Voluntary liquidation came in 1941, and the little banking business that remained was transferred to Glyn Mills in 1946. The company was finally dissolved in 1964</td>
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### Sale & Co.

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<tr>
<th>Firm</th>
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<tbody>
<tr>
<td><strong>Sale &amp; Co.</strong></td>
<td>1907–1946 (?)</td>
</tr>
<tr>
<td>21 Old Broad Street, London, EC</td>
<td>Sale &amp; Co. were foreign merchants in Yokohama until 1903. From 1904 to 1907 Sale &amp; Frazier operated as trade and insurance agents in Japan, including Charles V. Sale. In 1907 Sale &amp; Co. was described in the Bankers’ Returns as the “London House of Sale and Frazier, Ltd., of Yokohama, a Company registered under Japanese law.” In the Post Office Directory for 1914, it was listed under Merchants—Japan. Included in Bankers’ Return for 1907–1946, apart from 1912 and 1925</td>
</tr>
<tr>
<td>From 1934: 10 St. Swithin’s Lane, London, EC4</td>
<td>Charles V. Sale became Deputy Governor of the Hudson’s Bay Company in 1915, succeeding Lord Kindersley as Governor in 1925</td>
</tr>
<tr>
<td>From 1939: 226 Central Buildings, Southwark Street, London, SE1</td>
<td>In 1930 a special committee of inquiry examined the affairs of the Hudson’s Bay Company, including the dealing of the Governor and his firm. This inquiry was the result of charges made by Mr C. L. Nordon. During the First World War, Mr Sale and his firm made very large profits by chartering ships and purchasing supplies on behalf of certain Allied Governments. This business continued to 1921. Although the committee was critical of some of the actions of the board of the Hudson’s Bay Company, it found “no want of good faith” The firm failed in 1965 with a deficit of £3.8m owed mainly to Japanese banks</td>
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### F. G. Sale & Sons

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<tr>
<th>Firm</th>
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<tr>
<td><strong>F. G. Sale &amp; Sons</strong></td>
<td>1915–1933</td>
</tr>
<tr>
<td>20 Bishopsgate, London, EC2</td>
<td>Dealers in Japanese and Municipal bonds. Frazer &amp; Company were its New York correspondents</td>
</tr>
<tr>
<td></td>
<td>Believed to have been established in 1915 by Frederick George Sale, merchant banker and sole partner. Included in the Bankers’ Return of 1918–1921</td>
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<td>Went into voluntarily liquidation on 1 May 1933 when Alfred V Sale was chairman. By that time it was a limited company</td>
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### Firm Profile

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<th>Firm</th>
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<tr>
<td><strong>M. Samuel &amp; Co.</strong></td>
<td>1831 to 1965</td>
</tr>
<tr>
<td>25 &amp; 27 Bishopsgate, London, EC</td>
<td>The firm was highly successful in Far Eastern trade. In the early 1890s substantial profits were made in the rice trade, which were reinvested in developing oilfields in Borneo. From 1897 the firm managed the Shell Transport &amp; Trading Company. The amalgamation of Shell with Royal Dutch Petroleum Company in 1907 led to the resignation of Marcus Samuel from his eponymous firm which then ceased to manage Shell. The old partnership was incorporated in 1920. In 1965 the firm merged with Philip Hill, Higginson, Erlangers to form Hill Samuel, which was acquired by the Trustee Savings Bank (TSB) in 1987.</td>
</tr>
<tr>
<td><strong>David Sassoon &amp; Co. Ltd.</strong></td>
<td>1858 to 1983</td>
</tr>
<tr>
<td>12 Leadenhall Street, London, EC</td>
<td>David Sassoon was born in Baghdad in 1792. He moved to Bombay in 1832 and established a trading firm. Cotton and opium were the two commodities on which the firm built its success. In 1858 David’s eldest son Sassoon David Sassoon was sent to London to establish David Sassoon &amp; Co. The firm’s success in supplying Indian cotton as a replacement for American cotton during the civil war transferred the heart of the business to Britain. Branches were opened in Liverpool and Manchester. Another son, Albert Abdullah David Sassoon, further diversified the firm’s interests in the late nineteenth century, establishing textile mills and a wet dock in Bombay. He settled in England in 1876 and was created a baronet in 1890. He was involved in the formation of the Hong Kong &amp; Shanghai Bank in 1865 and established a connection between the firm and the Imperial Bank of Persia. The firm had its banking licence withdrawn by the Bank of England in 1983.</td>
</tr>
</tbody>
</table>
### E. D. Sassoon & Co.
17 St Helen’s Place, London, EC
India House, 73 Whitworth Street, Manchester

**1867 to 1972**

On the death of David Sassoon in 1864 Elias saw himself as his brother’s, Albert Sassoon’s, permanent deputy, but three years later he resigned from David Sassoon & Sons. Taking his eldest son, Jacob (1844–1916), into partnership, he established a rival firm, E. D. Sassoon & Co., based in Bombay with offices in Shanghai, which carried on identical activities trading with the same centres as David Sassoon & Sons.

It was soon competing significantly in opium and Indian yarn, opening offices in Europe, Africa, and America, and outstripping the original firm. The two houses remained separate and rivals. Elias died in 1880, aged fifty-nine, in Colombo, Ceylon, while visiting tea plantations, and the business passed into the hands of his sons Jacob, Edward (1853–1924), Meyer (1855–1924), and David (1866–1938).165

E. D. Sassoon Banking Co. was registered in Hong Kong in 1930 to take over the banking interests of the merchant firm. In 1952 it was registered in the Bahamas. In 1972 it merged with Wallace Brothers under the title Wallace Brothers Sassoon Bank until 1974 when the Sassoon name was dropped.166

### J. Henry Schroder & Co.
145 Leadenhall Street, London, EC

**1818 to Present**

In 1818 J. Henry Schroder & Co. was established by Johann Heinrich Schröder.

In 1923 a firm was established in New York, the J. Henry Schroder Banking Corporation or Schrobanco as it came to be known.

In 1926 an investment department was created to develop the investment management activities of the firm.

In 1962 Schroders acquires Helbert, Wagg & Co., a stock broking firm founded in 1823, which specialised in issues for domestic clients and develops an important investment advisory side to its business.167

In 2000 Citigroup acquired Schroders’ investment banking business to form Schroders Salomon Smith Barney.168 Asset management and related businesses now comprise the whole of Schroders business.
<table>
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<tr>
<th>Firm</th>
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<tr>
<td><strong>Seligman Brothers</strong></td>
<td>Established in 1864. Founder member of the Accepting Houses Committee in 1914. Acquired by S. G. Warburg &amp; Co. in 1957.</td>
</tr>
<tr>
<td>18 Austin Friars,</td>
<td>Permanent member of the Accepting Houses Committee.</td>
</tr>
<tr>
<td><strong>Singer &amp; Friedlander</strong></td>
<td>1923 to 2008. Julius Singer founded a stockbroking firm in London in 1907. Singer was joined soon after by Ernst Friedlander, a native of Germany, whose family had been a prominent name in Berlin banking since the middle of the previous century. Friedlander himself had been the founder of the first merchant bank to open in South Africa, and he had been named as chairman of the Johannesburg stock exchange. Friedlander’s background gave the young firm a strong boost into the growing London exchange. World War I disrupted trading, and the company, possibly because of its ties with Germany, was forced to withdraw from the London exchange. Instead, Singer and Friedlander entered the banking industry. After taking on two new partners, Julius Stern and Max Ullmann, in 1923, the firm became the partnership of Singer &amp; Friedlander, which incorporated in 1933. Singer &amp; Friedlander was owned in succession by Bowrings, Marsh MacLennan, European Ferries and Britannia Arrow, before reversing into Gilbert House Investments shortly before the October 1987 crash and before regaining its independence. In August 2005 it was acquired by Kaupthing Bank, the largest bank in Iceland, and was renamed Kaupthing Singer &amp; Friedlander. It went into administration in 2008.</td>
</tr>
<tr>
<td>241/258, Salisbury House,</td>
<td>London Wall,</td>
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<tr>
<td>London Wall,</td>
<td>London, EC</td>
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<tr>
<td>Sperling &amp; Co.</td>
<td>1878 to 1945. The firm was established in 1878, but from 1930 its activities were mainly confined of company registrar. It ceased business in 1945.</td>
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<tr>
<td>Basildon House,</td>
<td>The partner, Edward Philip Andreae, was the brother of a Kleinworts’ partner.</td>
</tr>
<tr>
<td>Moorgate Street,</td>
<td>Sir E. Mackay Edgar joined the firm in 1907. He was former a Canadian stockbroker. His financial affairs ran into trouble in 1925 and he went into receivership, although this was rescinded the following year. He resigned from the firm at that time.</td>
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### Firm Profile

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| **Speyer Brothers** | 7 Lothbury, London, EC 1861 to 1922  
Gustav Speyer established Speyer Brothers in London in 1861. His son Edgar Speyer took over the firm. After the outbreak of war in 1914, he was publicly accused of disloyalty. He bore these insults for nine months, but in May 1915 he decided to act. He resigned his British honours in an open letter addressed to the Prime Minster, Herbert Asquith. In late 1921 Crown proceedings were undertaken against him. He was found guilty and an order issued under the Aliens Act to ensure that he would henceforth cease to be a British national. He returned to America and the firm Speyer Brothers was dissolved in 1922. |
<p>| <strong>J. Stamm &amp; Co.</strong> | 38 Throgmorton Street, London EC c.1920 to 1929 (?). Prior to the First World War, Julius Stamm was a stockbroker specialising in business with continental Europe. The outbreak of war gave rise to freeze in his business. Later he and other foreign-born Stock Exchange members were excluded from membership. Like Singer &amp; Friedlander, J. Stamm &amp; Co. became a merchant bank after the war. The firm was mentioned in the memoirs of Lionel Fraser as one of one of a number of firms active after the war. Other than this mention, there is little information available. The partnership with Eugene Bolton was dissolved in 1929 and the business continued solely by Julius Stamm, but it is not known for how long or, indeed, if at all. It is likely that he died in 1938. |
| <strong>Stern Brothers</strong> | 6 Angel Court, Bank, London, EC 1834 to 1964. The London firm was established in 1834 and worked closely with the family firms in Paris and Frankfurt until the outbreak of war in 1914. Member of the International Financial Society issuing consortium in 1863. Sir Edward Stern was also a director of Midland Bank and was succeeded in that role by his cousin, Sir Albert Stern. Recorded as an Authorised Depositary in 1954. Discontinued business in 1964. |</p>
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<tr>
<th>Firm</th>
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<tr>
<td>4 London Wall Building,</td>
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<tr>
<td>London, EC2</td>
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<tr>
<td>From 1936: 85 Gracechurch</td>
<td></td>
</tr>
<tr>
<td>Street London EC</td>
<td></td>
</tr>
<tr>
<td>E. von der Heydt &amp; Co.</td>
<td>1909 to 1917&lt;br&gt;On 11 June 1917, the Board of Trade made an Order under the Trading with the Enemy Amendment Act, 1916, directing the business of the firm to be wound up.</td>
</tr>
<tr>
<td>6 Austin Friars,</td>
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<tr>
<td>London, EC 2</td>
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<tr>
<td>Wallace Brothers &amp; Co. Ltd.</td>
<td>1848 to 1976&lt;br&gt;Wallace &amp; Co. was established in 1848 as an East India merchant based in Bombay, taking on the business of Firth &amp; Co. It later expanded into Burma and formed The Bombay Burmah Trading Corporation Ltd. in 1863. In 1878 Wallace Brothers had entered into oil transportation and distribution initially in North America oil, but later in Russian oil for the Far East. It withdrew from this trade by the end of the century. In 1972 Wallace Brothers &amp; Co. Ltd. merged with E. D. Sassoon Banking Co. Ltd. to form Wallace Brothers Sassoon Bank Ltd. In 1976 the company was acquired by Standard Chartered Bank after losses during the secondary banking crisis.</td>
</tr>
<tr>
<td>4 Crosby Square,</td>
<td></td>
</tr>
<tr>
<td>London, EC</td>
<td></td>
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S. G. Warburg & Co.
35 King William Street
London, EC4

1934 to 1995
Established in 1934 as the New Trading Company, an affiliate of Amsterdam-based Warburg & Co. In 1937 Siegmund Warburg invited Henry Grunfeld to become his partner in the recently formed merchant bank. In 1946 the firm was renamed S. G. Warburg & Co. In 1957 Seligman Brothers were acquired. This acquisition resulted in membership of the Accepting Houses Committee in 1959. It had a very successful investment management subsidiary, Mercury Asset Management, which was floated off in April 1987. S. G. Warburg & Co. became one of London’s leading merchant banks until the mid-1990s. In 1995 it was acquired by the Swiss Bank Corporation, becoming SBC Warburg. In 1997, SBC Warburg was merged with U.S. investment bank Dillon, Read & Co. to create Warburg Dillon Read. By 2002 the Warburg name had been dropped.

Jacob Wassermann
165–167 Moorgate, London, EC2
1924(?) to 1931(?)
Included in the Bankers’ Returns for 1926–1931 inclusive
In 1925 representatives of Jacob Wassermann, A. Rüffer & Sons, M. Samuel & Co. and the Eagle Star & British Dominions Insurance Co. Ltd. were appointed to a Committee of Inspection with the Official Receiver to examine the Industrial Guarantee Corporation, which had been put into liquidation. The Industrial Guarantee Corporation’s business was motor car hire purchase and was large scale. It had unsuccessfully fought a case against the Corporation of Lloyds arising from a defaulting underwriter. Presumably the losses sustained led to the liquidation and Jacob Wasserman was a creditor.
In 1931 Jacob Wassermann was the Chairman of the Anglo-Aegean Bank of Commerce Ltd., which was voluntarily wound-up due to difficulties with its business in Greece.
### Firm Profile

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<th>Profile</th>
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<td><strong>1865 to 1923</strong>&lt;br&gt;Wogau &amp; Co. was founded in Moscow in 1839 by M. M. Wogau of Frankfurt, and the London branch was opened by his partner Edwin Schumacher in 1865. By 1914 the Russian firm had become a wide-ranging investment group with interests in sugar refining, paper milling, metals and chemicals. The London firm was a leading merchant bank with capital of c.£1m. During the Russian Revolution, the Bolshevists confiscated the assets of the Russian firm. Walter Ffennell became a partner in Guinness Mahon &amp; Co. in 1923 and the London firm was gradually absorbed by it.</td>
</tr>
</tbody>
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