# THE UNDERLYING STRATEGIC ELEMENTS IN THE MANAGEMENT OF BRITISH COLONIAL BANKING : WITH EMPHASIS UPON THE WEST INDIAN CHARTERED BANKS AND PARTICULARLY THE COLONIAL BANK BETWEEN 1836--1856

submitted towards partial fulfilment
of the requirements for the
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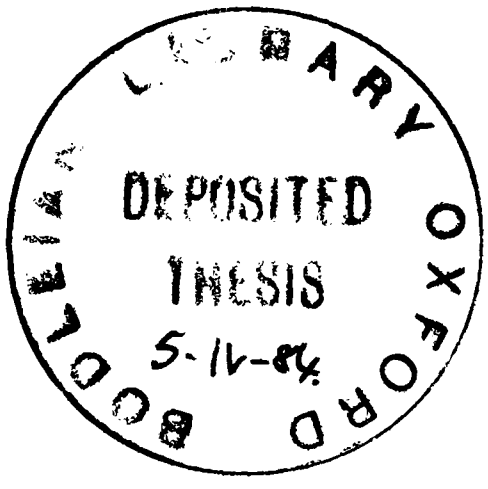


Foad Katirai
Trinity College
Oxford

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## ABSTRACT

The following pages are an in-depth study, based upon original sources, into the management of colonial banking companies--hitherto given relatively minimal coverage in the literature. Their focus is on the underlying strategic opportunities, threats, strengths, and weaknesses of five West Indian colonial banking companies between 1836-1856.

The growth of a moneyed economy after the abolition of slavery had given rise, for example, to increased opportunities for discounting, buying and selling bills on London, and intercolonial money transfers.

These opportunities however were not without risks--such as the speculative and highly vulnerable nature of colonial commerce, the anomalous state of the colonial currency and the ignorance and even prejudices of the colonists as well as those in both the home and colonial government.

Particular attention was paid to the strengths and weaknesses endowed by a Royal charter, such as limited liability, the right to issue bank notes, or minimum paid-up captal requirements, etc.

Another chapter was devoted to the strengths and weaknesses of multi-branch banking. While synergistic strengths appeared to exist for certain operations, there were clearly diminishing returns in net revenue from an increasingly larger network. This was particularly the case for operations outside the British Empire.

Further attention was focused on the strategic control the formal corporate hierarchy, information flows, and the accounting system gave directors over disclosures of bad debt for dividend purposes, for tax purposes, and to instill confidence in the shareholders and the general public.

Finally, the last chapter discussed the human strengths and weaknesses, including the inherent weaknesses in the control systems which encouraged various frauds.

## DEDICATION

To The Men of The Colonial Bank

"'It is a cruel mortification, in searching for what is instructive in the history of past times, to find that the exploits of conquerors who have desolated the earth, and the freaks of tyrants who have rendered nations unhappy, are recorded with minute and often disgusting accuracy, while the discovery of useful arts and the progress of the most beneficial branches of commerce are passed over in silence, and suffered to sink into oblivion.'"

Gilbart, The History, Principles and Practice of Banking

## ACKNOWLEDGEMENTS

This thesis was written in the wake of the 1979 Iranian Revolution. The devastating blow and the suffering it has caused myself, my family, and my fellow Bahais has been a painful burden to work under. I am moved to acknowledge my debt to those who have laid down their lives for their beliefs. Their courage and steadfastness has more than anything else encouraged me to continue.

After more than four years of work, there are an innumerable number of people (though the responsibility for the finished work is, of course, my own ) whose support and help have been instrumental in the completion of this thesis. Space confines me however to name only a few. My thanks to all is nevertheless undiminished.

It is my pleasure to first and foremost acknowledge the great debt I owe to my Supervisor, Professor Peter Mathias of All Souls College, Oxford, for his support and guidance. One of the unique features of an Oxford education are, no doubt, the opportunity to sit at the feet of one of the foremost academics in one's field. I shall always regard it as a privilege to have worked so closely with Professor Mathias.

Next I am most indebted to Michael Earl and Bob Tricker who before the thesis was released for publication were patient enough to discuss matters in the abstract and once released gave me of their invaluable advice and assistance. My warmest thanks are also due to Tony Rands and his colleagues who taught me how to use and then were patient with me while I typed and printed the thesis on their wordprocessor.

On a non-academic basis my heartfelt thanks are due to Mr. Ron Just, now retired Head Office Manager of Barclays Bank International, and his secretary, Ms. Rose Raymond, who found space for me in their office in the City of London during the nearly two years of my research into the voluminous Colonial Bank archives. Mr. Just was also kind (brave) enough to undertake the detailed reading of the lengthy thesis from the point of view of the bank releasing it for publication.

For the physical access to the archives, I am indebted to the now retired Barclays Bank International Archivist, Mr. John Blandford, whose decision to trust me with the archives of the Colonial Bank has made this work possible.

My thanks also go to the young ladies at the Public Records Office who showed me how the system worked and helped me trace records which had been misplaced or were difficult to find in the public indexes--to say nothing about the amount of Xeroxing I gave them to bring back to Oxford with me.

Last, but by no means least, I shall always retain fond memories and an undying gratitude for the kindness, support, and encouragement given to me by all the fellows and staff at the Oxford Centre for Management Studies. It has been a wonderful experience working among them.

## PREFACE

The conditions under which the research for this thesis were conducted warrant a few words as a preface to the work. Hopefully they will encourage others who seek to work in the area of private corporate archives.

Banks are required by the nature of their business to keep detailed records of their customers and their transactions. This, in turn, is legitimate grounds for them to also be shy about to whom and how such records are made public.

Such considerations are not unknown in the academic world, particularly in other fields such as politics or history. The 'right' of the public to know the facts and the demands of the academic world have encouraged the custodians of public archives to make them available for study and research.

While public records, after a given lapse of time, are available as almost a matter of right, access to private archives is a delicate matter of negotiation between the researcher and their custodian.

It is my hope that the success of my work here will serve as a precedent for both the custodians of such private bank records as well as future colleagues who seek to do research of this nature.

No archivist can be expected to have read all the records in his charge and therefore to be absolutely sure that no legally compromising information might be divulged by allowing unrestricted access to an outsider. For the academic to insist that he be given such access per se would therefore merely discourage even the most liberal minded archivist from helping him. In hindsight, the desirable compromise found in my case was to give the bank sufficient assurance so that I could be free to look at the archives for myself but also to be trusted to refrain from publishing any material found, deemed by the bank to be of a compromising nature. As my case was an unprecedented one, the assurance took the form of a 'declaration of secrecy', found below. But it was not merely the bank who trusted me. I in a sense also trusted them to release my work for publication when they had seen that it was motivated by genuine academic interest and did not seek necessarily to embarrass the bank. My trust has also been vindicated by the second letter attached herein. Although each case will no doubt be different, I hope my work will encourage other academics to undertake similar research even under similar restrictive conditions, knowing that they have a successful precedent here.

The alternative appears to me to be highly wasteful and possibly an irretrievable loss. To have refused to go along with such a scheme would have most likely jeopardized my major source material. It might also have relegated these archives to their vaults underneath Barclays Bank where if, God forbid, anything were to happen to them they would be lost to the future.

Barclays Bank International Limited
Head Office
54 Lombard Street, London EC3P 3AH
Telephone 01-626 5656
01-283 8989
Telex 887301
Telegraphic address Barcladom London EC3

# DECLARATION OF SECRECY

I the undersigned FOAD KATIRAI of Trinity College Oxford having been allowed access to certain records and archives of Barclays Bank International Limited and its predecessors including the Colonial Bank for the purposes of academic research in preparation of a thesis do hereby undertake to keep secret and inviolate both during the period when I have access to such records and archives and also in perpetuity all information which may come to me regarding the affairs and accounts of the said banks and their customers excepting in so far as I may be permitted by the General Management of the Bank or its authorised representative to divulge and make use of the same for the purposes of my written thesis.

Signature .....

Witness:

J.F. Blandford
Archivist

Date Sept. 24th 1979

REGIONAL GENERAL MANAGER
TELEPHONE: 01-283 8989

BARCLAYS BANK INTERNATIONAL LIMITED
54 LOMBARD STREET
LONDON, EC3P 3AH

1st November, 1983

Dr. Katirai,
Trinity College,
Oxford.

Dear Dr. Katirai,

Mr. Ronald Just has now read the thesis which you have prepared and has returned this to the Bank together with his comments.

As a result of his scrutiny I am able to confirm that the Bank authorises you to utilise for publication in your thesis as submitted to the Bank for inspection the material which you have obtained from the records of the Colonial Bank which now form part of the archives of Barclays Bank International Limited. In allowing the free use of this material the Bank, of course, does not accept any responsibility for the accuracy of the records or the extractions nor for your interpretation of the information extracted.

I regret if the foregoing appears to be rather stilted, but as you will appreciate it is necessary for us to add these caveats. I trust, however, that your thesis will be well received and that you will obtain your Oxford D.Phil. I should also imagine that you have greatly enjoyed your research and have found a good deal of satisfaction in producing your thesis.

Yours sincerely

M.J. Rutter
REGIONAL GENERAL MANAGER

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# PART A

# INTRODUCTION

# CHAPTER I

## INTRODUCTION

### (1) A GAP IN THE LITERATURE

Both the historical origins as well as the managerial profiles of European retail banking are well represented in the voluminous banking literature. Little attention however has been devoted to the colonial antecedents of international banking.

Lawson's History of Banking...., [1] published in 1855, as well as Gilbart's The Logic of Banking, [2] in 1859, and The Principles and Practice of Banking, [3] in 1871, show how far back the literature extends. Both of these authors were primarily interested in domestic English banks. Lawson devoted much of his work to private banking in Great Britain. Gilbart focused upon joint-stock banking, particularly after the Act of 1844*

More modern economists and economic historians have focused upon the pre-1860 macro-economic forces (such as the movement of capital, trade, financing for sovereign borrowers, bond floatations, etc.) and discussed managerial strategies only after the 1860s.

Professor Jenks and Professor Feis are good examples of this emphasis in the literature. Professor Jenks' comprehensive

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*Footnote: The Act to Regulate Joint-Stock Banking in England. 7 & 8 VICTORIA CAP. 113. 5TH SEPTEMBER 1844

study, The Migration of British Capital to 1875, [4] elucidates the economic and financial background to the early international banks, while saying little about their structures and/or management. Furthermore, Professor Jenks focuses upon the private bankers of England and makes no reference to the joint-stock colonial banking companies. Professor Feis' analysis of the international banks, Europe The World's Banker 1870-1914, [5] on the other hand, is post 1870. Professor Sayers' Banking In The British Commonwealth [6] concentrates on the state of affairs in 1952 and does not pursue the historical origins of any of the banks beyond World War I. Professor Pringle's A Guide To Banking In Britain identifies colonial banking as the roots of modern British international banking,

> " Historically, this overseas branch network of the UK banks has had two characteristics: ...Set up mainly in the days of the British Empire in the nineteenth century, their function was primarily to serve the needs of traders and then of the settlers in the colonies (like their counterparts in French Africa). They therefore opened branches not only in the main centres, but also throughout the countryside, and began to offer banking services on the same model as the domestic English banks did at home." [7]

but makes no suggestions of how colonial banking may have been organized and/or managed. These questions are left unanswered in the literature.

This is partly due to the fact that hitherto the material was not easily available. Consequently, preciously few academic studies of the earliest colonial banking companies have been made in depth. This is even more true when by banking

companies is meant those which were engaged primarily in retail banking rather than sovereign lending or bond floatations. In relation to the extant literature, very little has been published about banks which were registered or incorporated, often by Royal charter, in England, but whose branches (and therefore retail operations) were to be found in the colonies. A notable exception that can be cited is Joslin's study of the Bank of London and South America [8]. It, however, also focuses upon international banking after 1862!

The early corporate histories--such as the Barclays Bank, A Banking Centenerary [9]--are often chronological narratives, more interested in major historical events and personalities rather than underlying managerial strategy or strengths and weaknesses.

The literature about sovereign lending has tended, according to Professor Channon, to "... personalise particular institutions...". [10] These works have had more to say about particular individuals (such as the Rothschilds, Barings, Gurneys, etc.) than the management of their companies. This has even been true when these companies were not privately owned but joint-stock. This can be seen in Professor Landes' Bankers and Pashas [11]--an in-depth study of the sovereign loans made to the Ottoman principality of Eygpt in the 1860s. Using archives and commercial correspondence, extant in France, Professor Landes described financiers, such as J. Pastre, A. Devaux, and G. Sinadino, who were the largest organizers of the Eygptian loans.

They were also the founders and first directors of the Anglo-Eygptian Bank, incorporated in London. In personalizing the study, Professor Landes left untouched any discussion of the managerial structure of their joint-stock company. The archives of the Anglo-Eygptian Bank would have given a corporate or managerial perspective to his work.

Professor Baster's has been the only serious study of these early colonial banking companies. His two books, The Imperial Banks [12] and The International Banks, [13] trace the historical evolution of the original colonial banking companies into the large international banks they eventually became. Unlike his colleagues, Professor Baster describes the major colonial banking companies and their particular ancestry.

Professor Baster's work, however, is imbued with two innate limitations in its analysis. It is confined to external sources, primarily those found in the public records, rather than the archives of the banks; as well as being limited in its detailed analysis by the very nature of its scope, covering all the major banks between 1836-1929. Because of these limitations, Professor Baster's work is also (in Professor Channon's words) typical of

> "... the literature to date [which] has not treated these [banking] firms as the individual and unique business organizations that they are, but rather has considered them collectively--as clearly defined, yet somehow characterless, groups of like enterprises." [14]

It looked upon these banking companies as economic firms rather than managerial organizations.

## (2) THE AIM OF THE THESIS

It is the aim of the thesis to make a contribution to this literature by looking at the underlying strategic elements in the management of five West Indian colonial banking companies, the Colonial Bank, the British Guiana Bank, the West India Bank, the Jamaica Bank, and the Union Bank of Jamaica.

The main focus is therefore managerial rather than political, historical, or even purely economical. Using original archival material, as well as public records, newspapers, etc., the following chapters will analyse the strategic elements in colonial banking companies.

In order to make both the research and its presentation as a D.Phil thesis manageable, the discussion has had to be confined to the West Indian chartered banks, and in particular the Colonial Bank, between 1836 and 1856, when its Royal charter expired. This was as much due to the massive wealth of details extant in the Colonial Bank archives (in comparison with those of its regional competitors such as the British Guiana Bank and/or the West India Bank) as the sensitivity of the various sources to safeguard their confidential material. Casting about too far for material--which may well have not been extant--inevitably advertised and thereby would have compromised the confidentiality under which the research was conducted. Enough material about the other West Indian banking companies, fortunately, already existed in the public domain to enable comparisons to be made against the bench-

mark of the Colonial Bank--for which the detailed material was at hand.

Professor Baster's conclusions, based upon his comparisons of the various colonial banking companies, would have been sufficient reason to choose the Colonial Bank as an 'ideal-type' colonial banking company :

> " The Bank financing English trade with what was then the most valued portion of the British Empire, namely the West Indies, would possess a quite special importance, and for this reason and on account of its large capital--£2,000,000, the Colonial Bank was in its day the most important Empire Bank in existence." [15]

But there are also other reasons for doing so.

The Colonial Bank was one of the first colonial banking companies to receive a Royal charter, in 1836. By preceding the others, it established the foundations of colonial chartered banking companies and served as a 'prototype' for later companies to emulate and improve upon.

Furthermore the West Indies had been, before 1833, a slave-economy, without the extensive commercial opportunities for banking. This furnished another opportune reason, after the abolition of slavery, to look at the natural demand for banking services in the colonies.

## (3) THE METHODOLOGY OF THE THESIS

Dealing with the management of a historical company, the methodology adopted inevitably had to have both a historical as well as a managerial perspective. The balance, in turn, was dictated by the aim to understand the strategic elements of colonial banking rather than to glean theoretical lessons for strategy formulation. The source material would not have been suited for the latter. Those in the strategy literature who (like Srinivasan & Dascher* see strategy formulation as a learning process [16] or like Saunders see it as a political process [17] ) address the modern organization and its planning process would not be of much help in understanding a historical company. This is not to say that the colonial banks behaved in a radically different manner or were simple and primitive--far from it. Rather, the bank records, those in the public records office (hereafter, the PRO), contemporary newspapers and other miscellaneous sources (from which a composite picture of the organization, with the benefit of hindsight, is constructed) would not allow any rigorous behavioural conclusions to be drawn. Others in the literature (like Channon & Jallard, Multinational Strategic Planning [18 ] or Chandler, in Hannah's

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*Footnote: For others see :

C.W. Hofer, "Toward A Contingency Theory of Business Strategy", Academy of Management Journal Vol.18 £4 (December 1975) pp.784-811

W.D. Guth, "Toward A Social System Theory of Corporate Strategy", The Journal of Business Vol.49 £3 (July 1976) pp.374-388

Management Strategy And Business Development : A Historical & Comparative Study [19]) distinguish between strategic elements such as structure and strategy formulation. These elements are identifiable in a historical context and enhance an understanding of the management of a historical company.

In order to discuss the underlying strategic elements of colonial banking, a working definition of strategic elements was essential. It was convenient (for the purposes of consistency throughout the thesis as well as to avoid losing sight of the main focus upon colonial banking itself, to say nothing about the length of the thesis) to adopt such a definition as a methodological assumption. Other interpretations of strategic elements might well arrive at a different perspective (even from the same historical conclusion). In so far as this thesis pivots around a particular definition of strategic elements, it must be recognized as a methodological assumption.

According to Ansoff, one of the earliest theoreticians of corporate strategy, "we speak of 'strategic' decisions, where 'strategic' means 'relating to [the] firm's match to its environment'...". [20] The match, in turn, was one between the opportunities and threats in the external environment and the internal "... strengths it [i.e., the organizations] will seek to exploit, and conversely the weakness it will seek to avoid". [21] These opportunities/threats and strengths/weaknesses were adopted as the working definition for strategic elements.

The definition is, of course, not without its limitations. It is, as suggested above, an arbitrary assumption dictated by the historical nature of the source material. It however is still fundamentally a modern framework of analysis imposed upon the past. Nothing in the contemporary sources suggest that this would have been the way the colonial bankers (even assuming they were cognizant of it) would have seen or described themselves. Furthermore, by defining strategic elements as those opportunities/threats and strengths/weaknesses of a particular organization, there is the risk of focusing so narrowly as to place the relevance of any conclusions drawn with respect to other colonial banking companies in doubt.

While nothing <u>more</u> could be done to rectify the first limitation than adopting as simple a modern definition as possible, the second limitation was contained by the choice of the strategic elements discussed. This, in other words, became a criteria for the lay-out of the thesis. The choice of the particular strategic elements in the organization to be discussed was, therefore, based upon the criteria whether they had <u>a more wider</u> relevance than the others. Given the choice, for example, between Her Majestys' Government (hereafter, HMG) regulations, which applied to all colonial banking companies, and a financial analysis, which (however interesting) was unique to the Colonial Bank, a choice was made in favour of the former which had a wider relevance. The financial accounts were therefore used as raw material rather than a subject in their own right.

Part A, D, and E were devoted to the introduction, the summary, and the bibliographical citations, respectively.

Part B contains three chapters which focus upon the

--the opportunities and the threats for the bank in colonial commerce;

--the opportunities and the threats in colonial finance; and

--support and opposition in the colonies to banking companies.

Part C, on the other hand, looks at the internal strengths and weaknesses arising from :

--the regulations imposed upon a colonial chartered banking company;

--the structure of a multi-branch, multi-colony bank;

--the control system, including the disclosure of information; and

--the human strengths and weaknesses.

A summary of each chapter will be found in Part D.

# PART B

## OPPORTUNITIES & THREATS

# CHAPTER II
# OPPORTUNIES AND THREATS IN COLONIAL COMMERCE

## (1) TWO RESTRICTIVE ASSUMPTIONS

This chapter should ideally have focused upon what the colonial bankers and their decision-makers believed were the opportunities (or negatively threats) that faced them. However, such a task was much easier said than done--even with the benefit of a extensive archives. Without the archives it would, perhaps, have been impossible. The archives contain accounts, isolated comments (by the chairman at a general meeting, for example ) or a reference in a letter to, what appears to be, an opportunity that was recognized and exploited. Two basic assumptions of faith were necessary, in order to suggest that these were, in fact, opportunities that the bank recognized and exploited, or, alternatively, avoided. The first assumption was needed because, often, the reference in the archives was not made to illustrate the exploitation of an opportunity but as a report of past events. It had to be assumed that the bank had identified the opportunity when it presented itself. The second assumption is necessary because the reference was ex-poste. It must be assumed that the bank consciously seized and exploited the opportunity

and was not bestowed with it despite itself. Both of these assumptions become more tenable, if the opportunities are plausible.

The following pages will be looking at the external opportunities and threats that faced colonial bankers in the West Indies.

## (2) OPPORTUNITIES

### (a) NON-RESIDENT CAPITAL INVESTMENT OPPORTUNITIES

#### (i) SAMPLE RATES OF RETURN FOR CAPITAL INVESTMENT IN ENGLAND

Leland Jenks, in his The Migration of British Capital to 1875, argues that the gradual shortage of profitable investment opportunities, relative to rising savings, in mid-nineteenth century England caused an outflow of capital to more profitable opportunities in international trade--now that it had shifted from Dutch and continental domination to English hands. [22] Jenks cites the low level of interest rates, in England, as compared to her colonies between 1824-1834 as proof of these new opportunities. Professor Feis, however, strikes a note of warning about the difficulty and, therefore, lack of reliable statistical verification for Jenks' conclusions. [23] Different financial opportunities or instruments carried different risks and, therefore, different rates of return. One modern statistical source is undoubtedly Sidney Homer's comprehensive book, A History of Interest Rates: 2000 BC to the Present. It

contains a table of mid-nineteenth century interest rates prevailing in England. Homer's data, partly shown in Table 1, and his conclusions, at least, support Jenks, in so far as they show that short-term bank rates of interest and the market rate of discount, between 1830-1835, had fallen. So, Homer argues, had British consols.

> "Market yields on British Consols started the century at 4.5-6%; they were never above 4% after 1830, never above 3.5% after 1850, and were below 2.5% throughout the final decade of the century." [24]

What Homer's data does not allow is a comparison with other alternative forms of investment and, more importantly, opportunities and/or risks in the West Indies. Homer, himself, was the first to point out the narrow significance of his results. Furthermore, the differentials must be discounted for different risks associated with the different markets, as well as, the different financial instruments compared. Homer's data covered only three forms of investment. There are no figures for the others.

> " The spectrum of yields available to British investors was always very wide. The low yields from the funds were by no means representative of the entire market. Many kinds of long-term debt instruments were traded.... There were loans to United Kingdom municipalities and governmental boards, loans to colonial governments, loans to foreign governments, and loans to domestic and foreign companies. No continous and uniform series of interest rates on those various types of securities is available to us, and lack of standard ratings and uniformity would make such a series of questionable value." [25]

One explanation for the low levels of interest rates was, no doubt, the usury laws that had set a ceiling of 5%, before they were abolished in 1833. But these would not have significantly affected the decision to invest capital abroad. The open market rate and the effective rates, which reflected discount house commissions, did not approach the ceiling in the first-half of the decade. [26] The table, therefore, supports Jenks' arguments of low interest rates prevailing in England for specified opportunities, in short-term bank rates, open market discount rates, and yields on British Consols.

## (ii) SAMPLE RATES OF RETURN FOR THE WEST INDIES

The archives of the Colonial Bank and contemporary secondary sources, such as newspapers and other West Indian banking prospectuses, provide the other bench-mark to enable a comparison to be made against Homer's data. But once again it is important not to lose sight of the limitations of such a comparison. The rates for the West Indian colonies were not necessarily comparable with the opportunities available in Britain. The capital markets in the colonies were miniscule and unsophisticated. They neither had the different opportunities nor the comparable instruments. Even when comparable paper could be found, such as the military Commissariat drafts, on HMG Treasury, and/or good private commercial paper, it is difficult to impute a quantitative measure of the risk differentials.

TABLE 1
Short-Term British
Interest Rates
1830-1840
Compiled by S. Homer*

| | Bank Rate % Per Annum | | | Open Mkt Rate Dsct % | | |
|---|---|---|---|---|---|---|
| Year | Annual Av. | Low | High | Annual Av. | Low | High |
| 1830 | 4.00 | 4.00 | 4.00 | 2.81 | 2.50 | 4.00 |
| 1831 | 4.00 | 4.00 | 4.00 | 3.69 | 3.00 | 4.00 |
| 1832 | 4.00 | 4.00 | 4.00 | 3.12 | 2.75 | 4.00 |
| 1833 | 4.00 | 4.00 | 4.00 | 2.75 | 2.25 | 3.50 |
| 1834 | 4.00 | 4.00 | 4.00 | 3.37 | 2.75 | 4.00 |
| 1835 | 4.00 | 4.00 | 4.00 | 3.70 | 3.25 | 4.00 |
| 1836 | 4.42 | 4.00 | 5.00 | 4.25 | 3.25 | 5.50 |
| 1837 | 5.00 | 5.00 | 5.00 | 4.45 | 3.25 | 5.50 |
| 1838 | 4.12 | 4.00 | 5.00 | 3.00 | 2.50 | 3.50 |
| 1839 | 5.10 | 4.00 | 6.00 | 5.10 | 3.75 | 6.50 |
| 1840 | 5.10 | 5.00 | 6.00 | 5.00 | 4.25 | 6.00 |

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*Footnote: If Homer's rates need any further corroboration, an interesting entry exists in the, April 20, 1837, minutes of the court of directors, of the Colonial Bank, showing the prevailing rates of interest in London to be at 4%. The secretary reported

> "That under the sanction of the Deputy Chairman he had Discounted three of Mr. Morison's [probably the manager: St.Thomas Branch] Drafts amounting to £3000 at 4% per annum: £3000
> 27 days at 4% 8„17„ 6
> paid by cheque on Jones Loyd & 2991„ 2„ 6 [27]

## (iii) NON-RESIDENT CAPITAL INVESTMENT IN THE COLONIES

British capital investment, in the colonies, took two different forms:

--investment where no physical movement of the lender was needed, allowing the arrangements to be undertaken in England, and

--investments made by English capitalists which required a physical presence, of some sort, in the colonies.

The major non-resident and non-agricultural capital investment, in the colonies, had traditionally been mortgages on property*. The predominance of this type of investment may perhaps have been due to the basic shortage of capital, in the West Indies, as well as, the stringent usury laws there. Mortgage and property loans, in fact, all loans were governed, in the colonies, by a ceiling, such as the ones prevailing in Antigua, Demerary and Berbice, of 6% per annum. [29] With the usury law ceiling, in Britain, being 5% and prevailing rates of interest being 4%, such a small differential would hardly be expected to have compensated the risks and other problems, such as servicing costs, that would have faced the English investor, contemplating the colonies as an investment opportunity. The prospectus of the Jamaica Bank, however, disagreed. The differential, in its opinion, was a good enough reason to invest

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* Footnote: S.G. Checkland's biography of the Gladstone Family interests in the West Indies is an illustrative example. [28]

in the West Indies. [30] Mortgages arising from the indebtedness of the colonial planters to suppliers, in Europe, were not subject to the ceilings. In addition to the initial investment, needed to establish a plantation, the colonial planters needed operating capital. [30] In order to raise this, they had to pledge their property as well as the expected sales of their produce. The non-monied nature of the pre-emancipation slave economy made a sophisticated financial intermediary, such as a bank, unnecessary. In a slave economy, the planter supplied the needed provisions and the machinery to enable his slaves to work. The main source of this financing could, therefore, be adequately provided by the suppliers of these machines and provisions. The large West India merchants, in the UK, had naturally evolved into holders of large mortgages upon colonial property. Because such mortgages were part of a mercantile transaction (the interest capitalized as part of the profits) and not, strictly speaking, a loan, they were not bound by the usury laws of either England or the colonies. Planters, who needed capital and mortgaged their estates, in England, were faced with "... 15-20% interest paid to English mortgagees when interest in the Colony is only 6% ". [31] Interest, here, of course, included the profits. It should have more accurately been described as the rate of return to English merchant houses. Such a substantial differential would be expected to attract capital from Britain but not in the form of a colonial banking company. Such financing was much more within the sphere of a mercantile house or trader. As soon as it lent

money a bank would have to abide by the usury laws. It is not surprising that none of the colonial bankers were interested in lending against fixed property as a strategic objective.

## (b) RESIDENT OPPORTUNITIES IN COLONIAL COMMERCE AFTER THE EMANCIPATION OF SLAVERY IN 1833

For the British capitalist who was willing, and able, to follow his investment to the colonies and establish a resident physical presence, two financial opportunities offered themselves in colonial commerce:

1. domestic finance of trade (i.e., discounting), and
2. intercolonial and/or international trade financing (i.e., the exchange business).

Sample

### (i) RATES OF RETURN IN DOMESTIC FINANCE

Domestic finance, however, had the same shortcomings as loans. The usury laws set a ceiling rate of interest for discounts--6%. [30] This can be seen from a letter to a potential customer, in Montserrat, written by the manager at Antigua, on Sept. 23, 1837, and echoed by managers at Berbice [32] and Demerary. [33] Unlike fixed property loans the banks could not rule out discounting altogether. The banks were obliged to accommodate their customers and discount their bills, in order to keep other, more profitable business, at the bank. Discounting, in so far, as it was an element of intercolonial and international trade financing was tolerated. Before discussing

the opportunities of international trade financing (the exchange business), one notable 'exception' to the small differentials, in discounting, must be mentioned. It is not really an exception, to the above discussion, because this opportunity arose long-after the Colonial Bank had established itself in the West Indies. On Nov. 6, 1838, the Court of Directors considered and resolved to open a branch in Caracas, Venezuela. A reference in the correspondence of the manager in Demerary, Peter Rose, shows that the high rates of interest prevailing in Caracas were obviously an incentive for the bank to open a branch there.

> "The rate of Interest you [C.A. Calvert, the court secretary] mention as being current at the Caraccas [sic] is certainly very great, and it might be advisable to withdraw our Capital from the Branches amongst which it is at present distributed, could it be shewn [sic] that the Bank does not pay throughout the West Indies...." [34]

These high rates of interest in Caracas are corroborated by another source. Due to bad debts and the intervention of the Foreign Office, on behalf of the Colonial Bank (which will be discussed at length in Chapter V) a report* exists, in the PRO, describing the high rates of interest.

> "... notwithstanding the National Bank [of Venezuela] at present only charges 9 per cent; the British Colonial Bank of Caracas carries on a lucrative business, by discounting at 12 per cent; whilst one half of the loan transactions is [sic] affected at 18 per cent and even at a higher rate." [35]

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*Footnote: Written by H.M. Representative in Venezuela, to the Earl of Aberdeen, the Foreign Secretary, dated May 27, 1844.

At such differential rates the Colonial Bank was enthusiastic about investing its capital outside, not only of Britain, but of her West Indian colonies, as well. Unfortunately, in hindsight, even such large differentials proved insufficient to cover the enhanced risks associated with such investments. The Colonial Bank's trouble with bad debts, discussed later, was ample proof.

Sample

(ii) RATES OF RETURN IN INTERCOLONIAL AND/OR INTERNATIONAL TRADE FINANCE

So far the discussion has centered upon the discounting of local bills. Like a loan, its primary purpose was to finance domestic commercial activity. But a variant of discounting also existed in the finance of intercolonial and international trade. It arose from the substantial trade that existed between the West Indian colonies and Europe, North and, even, South America. Various colonial produce including sugar, molasses, rum, coffee, plantains (a banana like fruit) [36] and even timber from British Guiana [37] were exported to buy clothing, machinery, food [38] and, even, labour. An interesting detailed description, for example, of the trade between Trinidad and its neighbours in South America can be found in one of the petitions--cited in the Appendix--submitted by a group of Trinidad merchants to the governor-general, Sir George Hill, on June 2, 1838. {39}*

By the early nineteenth century, Britain had become the

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*Footnote: Hereafter, these bracketts { } will indicate document appears in the Appendix.

world's major trading nation and her financiers had followed her merchants around the world. Economists and economic historians, such as Hannah [40], Feis [41], and Sayers [42], have written extensively about this pattern. International trade implied international settlement of debt. This, in turn, meant opportunities to earn both an interest in financing trade and an exchange in settling the debts arising from it. Because they contained an element of exchange these bills were not subject to the usury ceilings.

"... To accept bills drawn by consignors abroad, on behalf of importers, factors, or merchants" [43], as Baster described it, came naturally to the mercantile banker elsewhere. Such an opportunity had presented itself, in the West Indies, after the emancipation of slavery, for several reasons, among them:

--the increased trade between the West Indies and Europe being settled by bills sold, in the colonies, payable in London;

--the increased trade between the West Indies and the Americas also being settled by bills payable in London; and

--the abolishment of slavery bringing about a complete change from a local non-moneyed economy to a moneyed one.

An editorial in the Royal Gazette of British Guiana, of May 26, 1836, recognized these opportunities when it gave

--the stimulation of commerce, and

--the facility to buy and sell bills, in sterling

as two of the significant reasons why banking was needed in the West Indies. [31]

The abolition of slavery, itself, was not as important to the establishment of colonial banking companies, in the West Indies, as the new commercial needs it brought about. The prospectus of the Jamaica Bank described some of these changes as being opportunities to be seized by the formation of new banks. First, by having resolved itself, "... the long and violent agitation of the slavery question ...." [30] restored optimistic hopes in the revival of the West India colonies as stable trading partners and investment opportunities. Secondly, the change of slave-labour to paid-labour meant two radical changes.

More cash and circulating money was, henceforth, needed to pay wages. Hugh Robertson, in his capacity as the promoter of the West India Bank, in Barbados, argued that emancipation generated a demand for more capital for the planters.{44} The 'Compensation Money' provided for the emancipation of the slaves had not been sufficient to provide new capital for investment, once the outstanding debts to the European mortgagees had been paid. Because the English mortgagees were either unwilling and/or unable to supply more than they had in the past, an opportunity presented itself for banks to exploit.

Secondly, what had before emancipation been a non-moneyed economy was now in need of financing. So long as the planter had bought and distributed essential necessities and supplies to his slaves, he settled his account with the merchants in kind (i.e., produce) and had little (or no) recourse to cash or financing. The remuneration of labourers, in cash, made

regular urgent demands upon the planter and required his borrowing cash, in anticipation of the sales of his crops. The Jamaica Bank prospectus {30}, for example, identified this need. The promoters of the Union Bank of Jamaica in their petition, to the Queen, for a charter estimated the wage requirements of the island, in 1838, to be £60,000 sterling per week--more than £3 million per annum! [145] The need for cash to pay wages was further exasperated by the state of the colonial currency--discussed in the next chapter.

The promoters of these banks, at first, confined their arguments to the financing needs of the planters. What about the other sectors--both white and black ? The first report made by the directors of the British Guiana Bank, to their shareholders, {45} mentioned the opportunities open to a bank to invest the 'Compensation Money' received by white colonists who were disinclined, themselves, to invest in agriculture or commerce. On the other hand, as wage earners, the former slaves became paying customers for new import houses. The purchasing powers of the emancipated slaves were not to be underestimated. The manager in Antigua cited "... our Negroes [who] may be desirous of depositing small sums of Money in the Bank" [46] as a reason for permission to allow small deposits. The acting attorney-general of British Guiana, Robert R. Craiq, noted, in his report to the governor, Henry Light, on Jan. 1, 1848, the detention of a Negro labourer, for other suspicious reasons, who had in his possession, $20 and $30 bank notes, to the sum of $700. [47] The

settlement of the import debts of such merchant houses would have been, in turn, be additional business for a banker.

Financing exports, for the planters, and imports, for the merchants, in fact meant purchasing and/or selling sterling bills payable in London. A bill on London generated two forms of revenue for its possessor. One was in the form of interest rising from the usuance of the bill. The other was in the form of an exchange arbitrage between a particular currency (say dollars) and sterling. Buying and selling bills on London had been the accepted means of settling international debts arising from trade. The West Indian exchange business was a particularly lucrative opportunity. Its scope was not confined to the trade of one or several island colonies. It encompassed markets as far away as North America. In his description of mercantile activity in North America, between 1763-1795, Professor East refers to the unfavourable West Indian balance of trade with North America being paid by its favourable balance with England, both settled in London. [48] The first chronicler of the Colonial Bank, G.R. Young, described this financial network, which had meanwhile disintegrated, but was once again relevant in the nineteenth century, in proud terms for England.

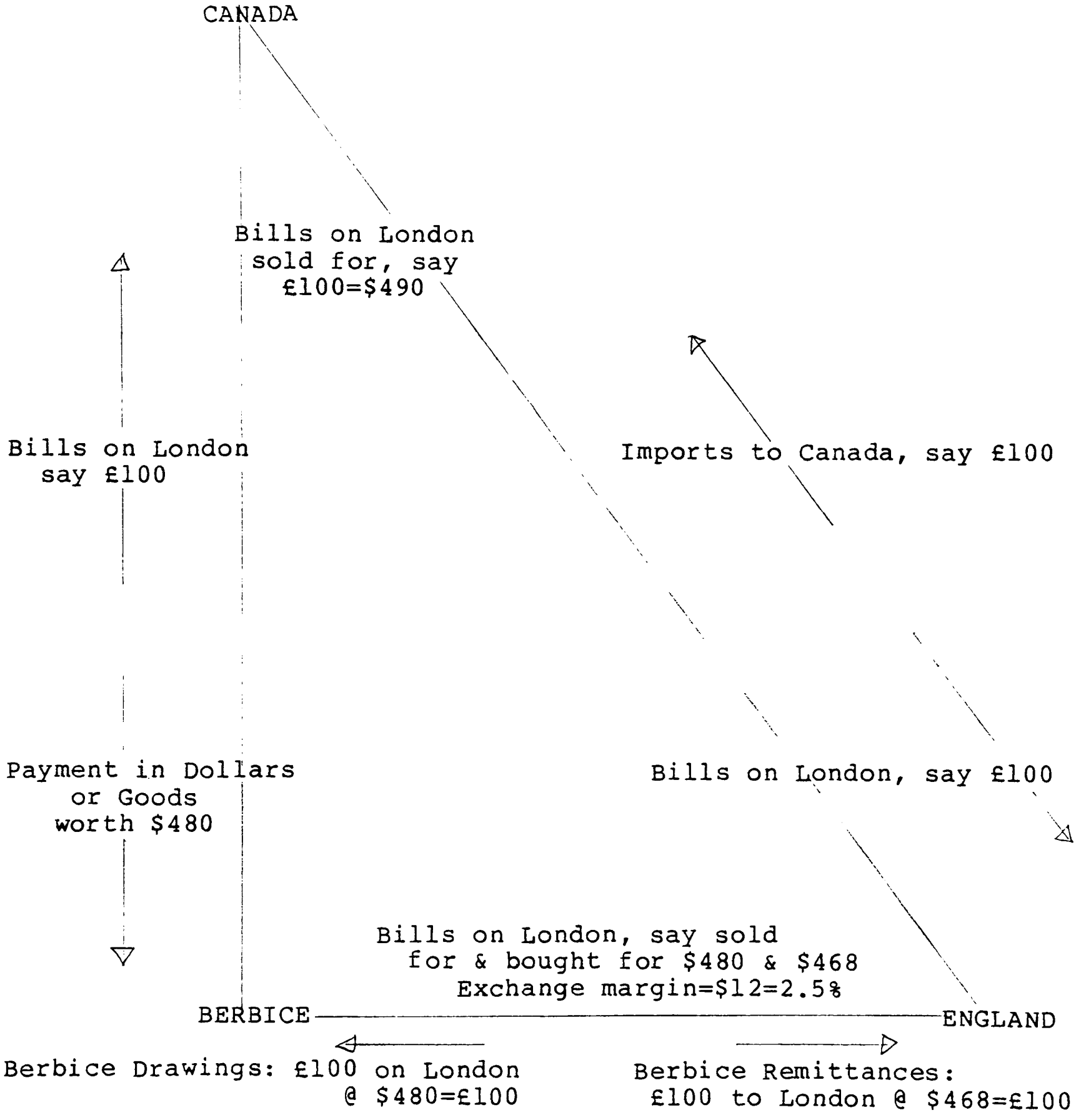
> "No system can be more fraught with promise, or can be better adopted to introduce so many facilities into the mercantile intercourse of those wide dependencies in the New World, than this circle of exchange. London, by a direct and regular connexion [sic], will thus become the depot of inter-colonial exchange. Balances due from the southern parts of the New World to the northern, in place of being remitted, as now, by the transportation of the metals at a

> heavy expense of freight, insurance, and often the risk of loss, will, for the future, be paid by the remittance of a bill of exchange; and the balance of the aggregate of exchanges ... may be settled by one quarterly payment at the offices in London ...." [49]

That this was still the case, in 1840, can be seen from two letters written by the manager of the Colonial Bank, in Berbice, to agents of the bank, in Halifax, Nova Scotia (The Halifax Banking Company) [50] and St.John's, New Brunswick (Messers Robert Rankin & Company). [51]

While a simple bilateral exchange business may need no explanation, the triangular (multi-lateral) opportunities that existed in the West Indies can, perhaps, be better understood by a hypothetical example. Diagram 1 illustrates such a flow of goods and the settlement of the debts arising therefrom. Assume the Canadian import house has bought a £100 of merchandise from England. It needs to settle the debt arising from this transaction. It is now in the market for (purchasing) bills on London. The prices, in dollars, of bills on London, are a function of their demand and supply. These, in turn, are a function of the (favourable or unfavourable) balance of trade between the two trading nations. Assume, for the sake of arithmetic, that Canada has an unfavourable exchange rate of $490 for every £100 of sterling, while Berbice has a more favourable rate--ceteris paribus--of $468. The Canadian import house, if it has connections in Berbice, can buy the £100 sterling, it needs to settle the debt in England, through that connection for $10 (i.e., $490-480) less, in Berbice, than in Canada, thereby

DIAGRAM 1
TRIANGULAR TRADE & SETTLEMENT OF DEBT
OPPORTUNITIES FOR WEST INDIAN BANKERS



adding to its profits in dollars. This connection, in Berbice, might perhaps be another merchant, a bill-broker, and/or a bank who acted as an intermediary. Having sold a bill on London, for $480, the Berbice 'banker' has now acquired a debt in London of £100. Due to the favourable balance of trade between Berbice and England, the Berbice 'banker' can buy bills on London for, say, $468, per £100 sterling. By remitting £100 to England, by the purchase of a bill on London, the Berbice 'banker' can settle the claim against him via Canada. His gross account, in dollars, now stands at a profit to him of $12. He has bought £100 for $468 and sold it for $480. The account only needs to be adjusted for any gain or loss in the interest arising from the usuance of the two bills. If the usuance of the remittance and the drawing (luckily) coincide and fall due at the same time, no additional interest gain or loss need be accounted for. The Berbice 'banker' will have earned a net profit of $12 or 2.5%. In fact, discrepancies in usuance and adjustments were commonplace. Furthermore, the foregoing illustration is only an isolated single complete transaction. The real world, of course, was characterized by a series of open-ended transactions. The 'banker' bought and sold bills, as and when he judged it to be prudent or profitable to do so. The simple matching of a bill purchased and one sold is an illustrative example. In fact, even the yearly totals seldom matched. It is only worth noting, here, that in the early years of its operations, the Colonial Bank regarded $480 per £100 of sterling as the 'accounting cost' of

its capital invested in the West Indies. If a bill was purchased for less than this amount the difference constituted an exchange profit. If a bill were sold for more than this amount the difference, once again, constituted an exchange profit.

G.R. Young applauded the exchange operations of the bank as a social good. [49] Whether or not it had its social benefits, the opportunities, open to the Colonial Bank, and the profits, from the purchase and sale of bills on London, can be surmised from the archives. In a letter written by the manager, in Demerary, Peter Rose, to the secretary, C.A. Calvert, in London, in 1839, a reference was made to the profitability of the exchange business for banking in the West Indies. Commenting on the prospects of a competitor, the West India Bank, Rose noted that "... they will soon find banking business in the West Indies, without exchange business, a losing concern". [52] From the accounts of the Berbice agency that have survived, however, it is clear that the exchange business was not always a profitable one, in 1837. The rate of return on gross margins calculated from the accounts of the Berbice agency, in 1837, are given in Tables 2 and 3. These rates are a percentage ratio of the actual exchange and the bank's own bench-mark of $480 per £100 sterling. How different these data, for 1837, were to rates in 1835-1836, when the Colonial Bank promoters decided to invest their capital in the West Indies, is not clear from the archives. If it can be assumed to have been more or less similar, then an interesting comparison can be made. The gross margins show the

interest and exchange earnings for a 90 days/sight sale or purchase of bills on London. They are, therefore, only comparable to the equivalent rates of interest and discounts. Table 1, earlier, showed the bank rate for 1837 to have been 5% per annum and the open market rate to have been higher than 3.25% and lower than 5.5%, or an average of 4.45% per annum. The roughly equivalent rates for 90 days (assuming it to be a quarter of one year) would be 1.25% for the bank rate and 1.11% for the average open market rate. The colonial rate of discount, set by the usury law ceiling, would have been one-fourth of 6% or 1.5%. It is clear from Table 2 that the profit margins for bills on London sold by the agency, were of the magnitude of 2.37-3.19%. Clearly lucrative opportunities to invite investment ? To the promoters of the Colonial Bank perhaps they were. Arranged in a table, in hindsight, with a greater number sold at par or no profit, the mean gross margin is reduced to 1.12%. A similar picture emerges from looking at Table 3. The magnitudes, particularly, in the first half of 1837 are 1.95-2.87%. Over the whole year, unexpected losses arise, lowering the mean to 0.86%. In order to corroborate the data in Tables 2 and 3, another series of data can be compiled to look at gross margins, in the exchange business, from the more simple perspective--as if buying were the cost of subsequent sales of sterling. Table 4 is compiled from the exchange quotations found in the letterbooks of Antigua and Demerary and, therefore, does not represent actual transactions. Here the magnitudes are even more clear. The data

in Tables 2 and 3, showing losses and transactions devoid of profit, may have been more a function of the inept (or charitable) management of the Berbice agents than a lack of true opportunity. Table 4 shows more lucrative opportunities than were available in England or from discounting at 6% per annum in the colonies.

Perhaps, then, Jenks, et al, were correct. Rates, in the first half of 1837, and by assumption, in 1836, may have been a decisive and strategic incentive to enter into the West Indian exchange business. What happened subsequently was, at the time, a function of the unknown future. Its only relevance to the decision-makers would have been in their attitude to risk. It was suggested earlier that a differential of 1%, in the discount rate, may have not been enough to induce capital investment in discounting. A multiple of more than 2 times the available rates in England could well be understood as an occasion for capitalists seeking new opportunities to exploit. After all there were risks associated with all investments. In fact, an argument can be constructed to illustrate how the risks associated with the exchange business may have been seen as less than those of discounting, for both the bills bought and sold were payable in London. At any rate, in the exchange business, there were <u>apparent</u> opportunities to be exploited. The Barclays' centenary publication summarizes, in words, what Tables 2 and 3 show in figures.

TABLE 2
GROSS MARGINS FOR 90 D/S DRAFTS
ON THE COURT OF DIRECTORS, LONDON
SOLD BY THE BERBICE AGENTS OF
THE COLONIAL BANK, 1837 [53]

| Date | Value:£ Stg | $ Recvd | Cost = $480 | Profit (Loss) | Gross Margin % |
|---|---|---|---|---|---|
| May 26 | 1500 @ 480.00 | 7200.00 | 7200.00 | 0 | 0 |
| June 22 | 350 @ 480.00 | 1680.00 | 1680.00 | 0 | 0 |
| | 450 @ " | 2160.00 | 2160.00 | 0 | 0 |
| | 300 @ " | 1440.00 | 1440.00 | 0 | 0 |
| | 650 @ " | 3120.00 | 3120.00 | 0 | 0 |
| Sept 13 | 150 @ 491.67 | 737.50 | 720.00 | 17.50 | 2.37 |
| | 900 @ " | 4425.00 | 4320.00 | 105.00 | 2.37 |
| | 300 @ 493.05 | 1479.16 | 1440.00 | 39.16 | 3.19 |
| | 200 @ 495.83 | 991.66 | 960.00 | 31.66 | 3.19 |
| | 300 @ " | 1487.50 | 1440.00 | 47.50 | 3.19 |
| | 1000 @ " | 4958.33 | 4800.00 | 158.33 | 3.19 |
| Nov 23 | 600 @ 495.83 | 2975.00 | 2880.00 | 95.00 | 3.19 |
| | 5183 @ 480.00 | 24878.20 | 24878.20 | 0 | 0 |
| | 79 @ " | 379.36 | 379.36 | 0 | 0 |
| | 900 @ " | 4319.98 | 4320.00 | 0.02 | 0 |
| | 600 @ " | 2880.00 | 2880.00 | 0 | 0 |
| | 100 @ " | 480.00 | 480.00 | 0 | 0 |
| | 246 @ " | 1179.80 | 1179.80 | 0 | 0 |

Note: $480=£100 is an arbitrarily chosen cost of sterling adopted by the Colonial Bank in its early years.

TABLE 3
GROSS MARGINS FOR 90 D/S BILLS OF EXCHANGE
PURCHASED & REMITTED TO LONDON
BY THE BERBICE AGENCY OF THE COLONIAL BANK
1837 [53]

| Date | Value:£ Stg | $ Paid | Cost of Capital | Profit (Loss) | % |
|---|---|---|---|---|---|
| May 15 | 828 @ 466.67 | 3865.75 | 3976.20 | 110.45 | 2.85 |
| | 200 @ " | 933.33 | 960.00 | 26.67 | 2.85 |
| | 200 @ " | 933.33 | 960.00 | 26.67 | 2.85 |
| June 19 | 1500 @ 470.83 | 7062.50 | 7200.00 | 137.50 | 1.95 |
| | 10 @ 466.66 | 46.66 | 48.00 | 1.34 | 2.87 |
| July 21 | 71 @ 475.00 | 337.25 | 340.80 | 3.55 | 1.05 |
| Aug 22 | 150 @ 479.17 | 718.75 | 720.00 | 1.25 | 0.17 |
| | 50 @ 479.16 | 239.58 | 240.00 | 0.42 | 0.18 |
| Sept 13 | 500 @ 483.33 | 2416.67 | 2400.00 | (16.67) | (0.69) |
| | 737 @ " | 3564.93 | 3540.36 | (24.57) | (0.69) |
| Oct 7 | 500 @ 491.67 | 2458.33 | 2400.00 | (58.33) | (2.37) |
| | 500 @ 483.33 | 2416.67 | 2400.00 | (16.67) | (0.69) |
| | Mean | | | | 0.86% |

Note: The cost of capital was arbitrarily fixed by the Colonial Bank at $480=L£00 sterling in the early days.

TABLE 4
GROSS MARGINS FROM 90 D/S EXCHANGE QUOTATIONS
AT THE ANTIGUA & DEMERARY BRANCHES
OF THE COLONIAL BANK, 1837 [54]

| Date | Buying £100 =Remittance | Selling £100 = Drawing | Gross Margin % |
|---|---|---|---|
| | ANTIGUA | | |
| Sept 2 | - | $ 505.53 | - |
| 7 | - | 505.00 | - |
| Oct 3 | - | 500.00-505.00 | - |
| 17 | $485.00-490.00 | 500.00 | 3-2 |
| 23 | - | 500.00 | - |
| 24 | 480.00-490.00 | 500.00 | 4-2 |
| Nov 13 | 490.00 | 500.00 | 2 |
| 18 | 490.00 | 500.00 | 2 |
| Dec 4 | 490.00 | 500.00 | 2 |
| 10 | 490.00 | 500.00 | 2 |
| 20 | 488.88 | 500.00 | 2.22 |
| 31 | 488.88 | 500.00 | 2.22 |
| | ANTIGUA MEAN | | 2.25% |
| | DEMERARY | | |
| May 9 | - | 483.33 | - |
| July 22 | 483.33 | 491.67 | 1.70 |
| 27 | 483.33 | 491.67 | 1.70 |
| Aug 30 | - | 491.67 | - |
| Sept 19 | 487.50 | 491.67 | 0.85 |
| Oct 2 | 487.50-491.67 | 495.83-500.00 | 1.68-1.67 |
| 4 | 487.50-491.67 | 495.83-500.00 | 1.68-1.67 |
| 19 | 487.50 | 495.83 | 1.68 |
| 31 | 487.50 | 495.83 | 1.68 |
| Nov 27 | 483.33 | 491.67-495.83 | 1.70-2.52 |
| | DEMEMERARY MEAN | | 1.63% |

> In the early 'eighteen-thirties'... and the years between 1833 and 1836 were prosperous ones.
>
> It was under these conditions that a group of merchants and private bankers in London conceived the plan of establishing a Bank.... By the time their negotiation had reached a point (in 1836) where they could proceed to call up capital, the wave of prosperity... had passed, and a period of stringency had set in." [55]

## (c) OPPORTUNITIES IN RETAIL BANKING IN THE COLONIES

One of the reasons the promoters of the Colonial Bank persued banking, in the West Indies, despite the souring of rates of return, appears to have been based upon expectations of compensating opportunities in providing an over-all retail banking service. In a letter written to the secretary, in London, on April 20, 1839, the manager, in Demerary, argued that while discounting and lending, by themselves, may not have been remunerative, as a whole retail package, banking should be profitable in the West Indies. {56} In order to understand these opportunities, referred to by Peter Rose, it is necessary to look at the customers of the bank and their respective needs for a banking service. There were three types of customers in the colonies.

### (i) THE PLANTERS AND MERCHANTS

The discounting and exchange facilities required by the planters and merchants have already been discussed at length. But a relevant question that has not been answered, yet, is the reasons why a formal bank was a better provider of these services

than the traditional mercantile bankers or local money-lenders. G.R. Young suggested that the advantages of approaching a banker, for money to invest in a sound commercial proposition, rather than another merchant or money-lender, lay in the fact that he would not refuse the accommodation in order, as a businessman, himself, to take advantage of the opportunity shown him by his prospective customer. {57}

## (ii) THE ORDINARY DEPOSITOR

Money-lenders and merchants were reluctant to accept deposits at interest from ordinary depositors. Such deposits, characteristic of the Scottish sytem of banking, were a feature of formal banking concerns. In addition to the 'Compensation Money', the wages paid to the labourers gave rise to a demand for safe and profitable depositories of personal savings and capital in the colonies. {58} The prospectus of the Jamaica Bank noted :

> "in the case of Jamaica, assuming that nine-tenths of this amount be retained by mortgagees and residents in England, there must still be left to find its way to the island upwards of £600,000 Sterling a sum equal to three times the whole of the present circulating medium".[30]

The Royal Gazette of British Guiana encouraged banking services "... as a venue for the investment of unproductive funds" [31]. In their petition, of Dec. 8, 1839, to the governor enquiring why a charter had not yet been granted them, the promoters of the British Guiana Bank refer to this unfulfilled need {59} that existed in the colony. To a major extent, however, the colonies

met this need by establishing their own official savings banks. Ordinance No. 71, for example, announced in the Royal Gazette of British Guiana, as early as June 9, 1836, established a saving bank in Georgetown, Demerary and New Amsterdam, Berbice. [60] These were under the supervision and management of the colonial receiver-general and his assitant. Interest at 5% per annum was allowed, beginning from a minimum deposit of 6 guilders (3 guilders = $1 silver) up to a maximum of 600 guilders in the first year of deposit, up to 300 guilders in any subsequent year but no more than a total of 6000 guilders per depositor. Withdrawal was subject to a 24 hour notice.

### (iii) THE MILITARY COMMISSARIAT AND COLONIAL GOVERNMENTS

As the socio-economic development of the colonies advanced, public finance became a more pressing need to be regulated and organized. Prior to the commercial growth, after emancipation, the British military Commissariat had represented the largest financial body, in the public sector, of the colonies. It had financed its needs by the sale of bills on the Treasury in London. The opportunity it provided the Colonial Bank, who took over its financing, will be discussed, at length, elsewhere. The significant point, at this time, was the emerging importance of the colonial treasuries. They were progressively becoming larger from excise, duties, taxes, etc., and more difficult for the colonial treasurer to handle, in cash, from an iron-box, or chest, kept by him--see Appendix for a description

of such a chest. {61} Formal banking services meant the public could pay their civil debts by cheques and bank-notes while the colonial treasurers could settle their outstandings at any time, without having to wait until all the receivables had been paid in cash. The prospectus of the Jamaica Bank argued that the island debt also needed an investment venue and the establishment of a bank would provide a productive use of the public funds. [30] Details of these opportunities will emerge from the discussion, later, of how the Colonial Bank and others exploited these strategic opportunities.

## (3) THREATS

Colonial commerce was not without its risks. Losses in the financing of trade have already been noted in Tables 2 and 3. In addition to the more obvious risks of losses and bad debt there were three unique risks to colonial commerce, after 1833.

### (a) RISKS ASSOCIATED WITH COLONIAL GEOGRAPHY AND WEATHER

#### (i) GEOGRAPHY

The colonies were not immune to the prevalent threats of cholera in Jamaica {62}, fires in Barbados {63} and Antigua {64}, and/or disasterous droughts in British Guiana {65}. But the main threat to colonial commerce was, obviously, its geographical distance away from England. This posed two threats to a colonial company.

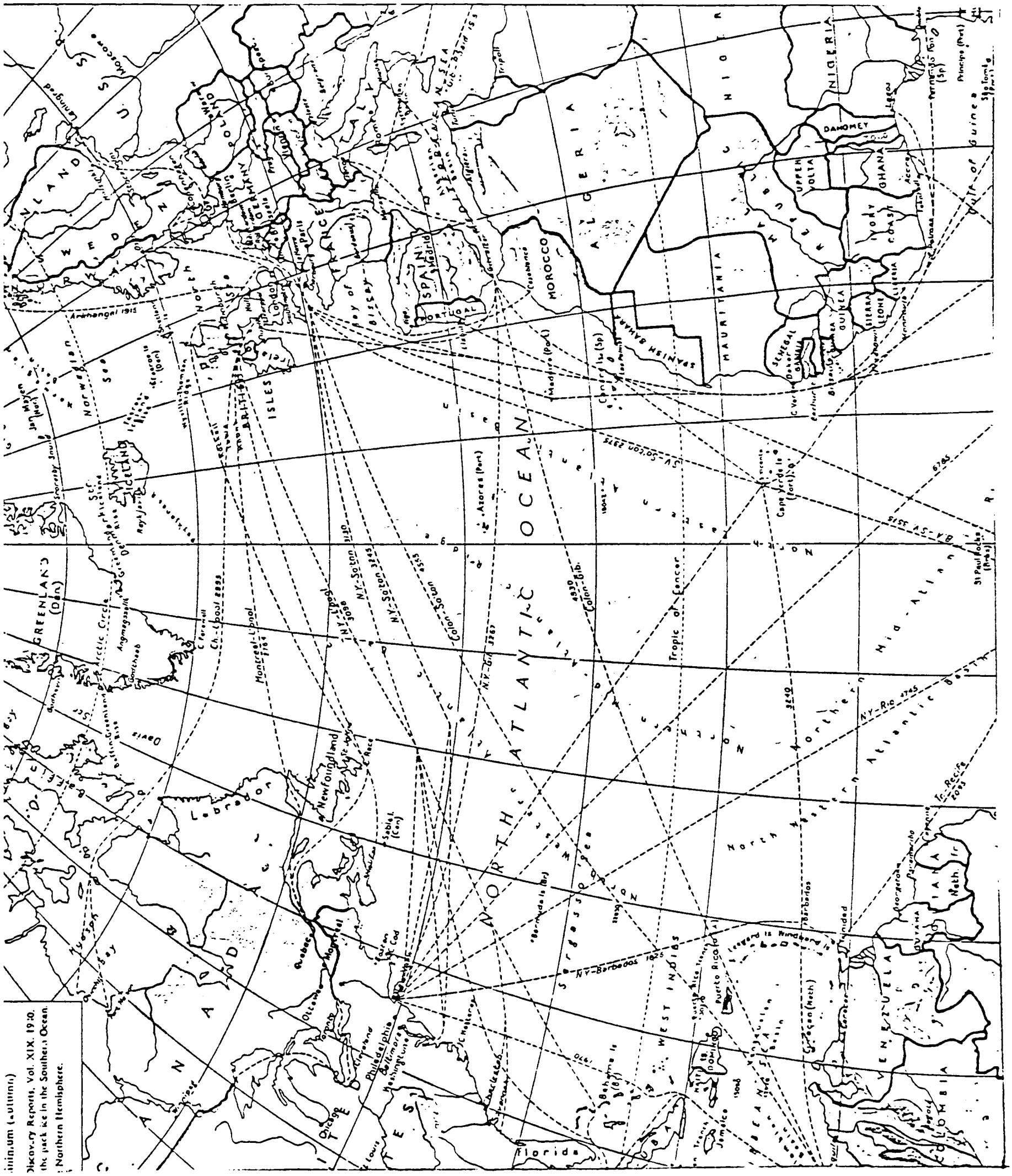
The first was the direct threat to the transportation of its goods, whether they constituted sugar and produce or specie and bills of exchange. An extant letter, for example, from the agents in Berbice, to the secretary of the Colonial Bank, in London, reported the loss, at sea, of a set of bills with its beneficiary. {66} The agents in Mexico, reported the loss of more than $7000, in 1837, by armed robbery from a Conducta (carrying specie from the mines to the coast). {67}

The second was a more subtle strategic threat. The geographical distance threatened the organizations' lines of communication. This, in turn, affected its information processing ability and its control over its distant branches and/or agents. A detailed discussion of the controls adopted by the Colonial Bank is best relegated to a later discussion. This section will merely take note of the threat and its recognition by the Colonial Bank. This is essential in order to understand the strategy employed by the bank, to minimize the threat.

A measure of the distances across which the the Colonial Bank operated can be discerned from a map of its branches and agencies, in Diagram 2. The threat of these distances, in turn, can be seen in the problems of communicating across them. Correspondence between Demerary and London, for example, took more than a month to arrive. Two envelopes extant in the PRO, mailed by Peter Rose the manager in Demerary, for example, written (not sent) on Dec. 13 and 15, 1836 (although marked erroneously as 1837) arrived at the Colonial Bank

DIAGRAM 2
MAP OF THE COLONIAL BANK SCOPE OF OPERATIONS
1836-1856 [68]

1:48 million --- Steamship Routes Distances in Naut. Miles



offices in London on Feb. 6, 1837--taking more than 50 days to reach London. Correspondence was the string that linked the numerous branches and/or agencies in the West Indies and North America to England and to one another. Strategic control over such a far-flung organization depended upon it. The colonial company could rely upon three general means of conveyance for its correspondence. The Royal Navy carried military despatches, H.M. Colonial Office despatches and the Post Office mail. Private sailing vessels and merchant ships were also available for this purpose. The latter, of course, would have been a private arrangement between the sender and either an obliging passenger or the vessel's captain. Finally, after 1839, the promoters of the Colonial Bank established the Royal Mail Steam Packet Company--no doubt with the external economies to the bank in mind. The extant letterbooks from the Antigua, Berbice and Demerary branches cite, with almost every letter, the conveyance with which the original and the second copy were sent. A limited table of this data has been compiled in the Appendix. {69} By analyzing the data it is possible to ascertain:

--which vessels plied between which colonies and the ports where they stopped,

--how often these vessels came back to the respective islands, and

--by cross reference, if extant, to a register of colonial shipping, whether the Colonial Bank had a preference for using the RMSPCo, the Royal Navy, and/or private vessels.

These are beyond the scope of this thesis and are, perhaps, of more interest to historians with a more specific interest in

colonial ships and shipping. The focus, here, is upon the threats, to the successful operation of a bank in the colonies, each of these means of conveyance may have presented.

The use of a private vessel or the Royal Navy, particularly an arrangement with a travelling passenger, was, of course, cheaper than the use of the Post Office. An obliging passenger would convey the mail gratis. It could also be faster if the mail carrier was not expected, in time, to be able to overtake the private vessel. The Colonial Bank branches sometimes entrusted the mail, advising drafts and letters of credits, sold upon their sister branches, unbeknown to the beneficiary, to him, for delivery to that branch. There was little choice if no mail-carriers touched at the island. The main disadvantage of this conveyance was the unreliability of the trustee. A letter is extant, in the Berbice letterbook {70}, that suggests the agents, in 1837, had relied upon obliging private courriers. Their unreliability, however, had put a stop to the practice. Even as late as March 1842, the manager at Antigua was complaining about the handicaps of working in an environment where:

> " the irregularity of the conveyance of correspondence amongst the Islands is become quite intolerable, and calls aloud for a general remonstrance on the subject." [71]

The above letter, itself, was addressed to the branch in St.Vincent. Possibly because there were no regular mail services between Antigua and St.Vincent, the letter was entrusted to the

captain of a sloop ('Never Despair') who sailed on April 4, ten days after the letter had been written!

The Post Office was the relatively more expensive conveyance. On the other hand, ultimately, it was the most trustworthy. The large numbers of mail handled by the Post Office enabled it to formally organize its operations. This, in turn, reduced the unpredictability associated with an obliging courier. But the Post Office also had its disadvantages. The steamers used by the Post Office were infrequent and when they arrived would then turn around and leave before the correspondent could draw up an answer. The manager at Demerary pointed out a similar problem to the superintendent in Barbados.

> " In sending Letters for the Berbice Branch by the Steamer you usually enclose them to me, by so doing they miss the Steamer as she goes on at once to Berbice and an opportunity may not occur again for a week.- This is well for you to know but as of course it is necessary that I should be aware of any Instructions given to Messrs.[sic] R. Semple and Company, it may not always be convenient to send Letters direct." [72]

An entry in the court minutes of March 9, 1837 recorded the attempt, by the directors of the Colonial Bank in London, to prevail upon the Post Office to allow 6 hours, in each island, to pick-up the replies to the mail delivered. [73] Obviously, from the above in 1839, the Post Office had not acceded to this request. This meant that the letters accumulated in the Post Office waiting for a steamer. The manager, at Antigua, wrote the superintendent, on April 29, 1842:

" I believe all the Despatches we have addressed to the Southern Colonies for several weeks past are still in the Post Office, and when they are to be forwarded neither Post Master nor Steamer Packet Agent can tell." [74]

## (ii) THE WEATHER

The colonial banker had no doubt that his prosperity was linked to the agricultural production and exports of the colonies. The chairman of the Colonial Bank explained, to his shareholders on Jan. 7, 1851, that "the extent of the Bank's transactions depends, mainly, upon the agricultural condition of the Colonies". [75] In turn, they knew that the most unpredictable (and uncontrolled, at the time) element in agricultural production was the weather. The petition of the Jamaica Bank referred to it as one of the obstacles to the establishment of banking in the colonies. The tropical climate in the West Indies, was, firstly, a hostile threat to the people working and living there. {76} This, in turn, meant that relatively lower calibre personnel were attracted to similar jobs, in the colonies, than at home. Illness, then, reduced the efficiency of their work once they got there. The archives of the Colonial Bank are full of reports, even of young clerks, falling ill and even dying in the colonies. The court minutes of July 23, 1852, for example, recorded the appointment of a young clerk from London, Mr. C.F. Peach, to go to St.Thomas. [77] A subsequent entry on Feb. 8, 1853 recorded his death, soon after arriving at his posting. [78] Even those who did not die of

disease could not, it appears, withstand the harsh climate for long periods. Thomas Nimmo had joined the Demerary branch at its inception, in 1836, as a clerk to become the manager, first at Berbice in 1844, and then in Demerary in 1854--see Diagram 11. The minutes of the court, on Oct. 10, 1854, recorded his resignation on account of "... his health was in that enfeebled and failing state, that his Medical Adviser had given it as his opinion that Mr. Nimmo could not continue to reside in a tropical climate". [79] Edward Carpenter, the bank's inspector, secretary, and early chronicler, was only able to withstand the rigours of travel in the colonies for 3 years. The court minutes of July 29, 1857 noted his suggestion that a periodic rest was essential, in London, for survival. [80] Illness also affected the efficient working of the branches. The Berbice agents reported on Nov. 10, 1837, to the manager in Demerary, that "in consequence of Mr. Cox's [the accountant] sickness nearly all this week the Abstract and List of Bills [reports on the branch operations] cannot be forwarded by the Despatch Boat today". [81] A much later report, in March 1849, by another manager, R. Barnes, in Berbice, described his inability to work due to illness:

> "... a very severe attack of fever and ague having completely prostrated me. This must be my excuse for the unconnected manner of this letter." [82]

The climate, in Berbice and Demerary, was so damp that in 1849 the cashier, H.K. Wright, asked to be transferred [83] while the

clerk in Kingston, who was promoted to accountant at Demerary, resigned rather than make the move. [84] Neither were the climatic conditions in London ideally suited for living. On Aug. 28, 1849, the committee dealing with personnel matters permitted the clerk living on the bank premises in London, "... owing to the state of his health... to sleep out of London for sometime...". [85] In Aug. 1858 the court allowed the bank porter to go on a week's leave of absence from London to recuperate his health--giving him a dozen bottles of Port to help him! [86]

The weather occasionally figured in the intelligence sent to London and other branches by the managers. The damp weather, in Demerary, for example, necessitated the use of high quality paper and ink. Peter Rose, the manager, reported this intelligence in his letter of Dec. 23, 1837 to London. [87] A dry-safe to keep the records was bought from Chubb & Sons and sent to Demerary on Jan. 7, 1840. [88] But by far the most important reason for a close watch on the weather was its bearing upon the agricultural production of the colonies. It served as a barometer for the prospects of the coming year. The profits from the purchase and sale of bills of exchange have already been discussed. The supply and demand for bills was a function of the agricultural exports (and therefore production) of the colonies. Favourable weather implied larger exports and more bills sold on London. The manager in Berbice, Robert Barnes, explained it to the secretary in London and the superintendent in Barbados, in

Aug. 1849:

> "The heavy rains still continue, there being very little sugar made, and no bills for sale." [89]
>
> "The heavy rains still continue here and till the dry weather sets in no sugar will be made and consequently no bills offerred for sale." [90]

It is almost impossible to postulate any significant correlation between the weather and the supply of bills on London from the data available. Meterological sources, even if extant, are well beyond the scope of this thesis. Enough data, however, is extant in the letterbooks and the accounts of the Colonial Bank to suggest a correlation. The occasional references appear, in the early letterbooks of Antigua and Berbice, to the weather and the manager's expectations of its effect on his business. A table constructed from the general abstracts, sent by the superintendent of branches to London every half-year, is included in the Appendix. {91} It shows the value, in dollars, of the 'Sterling Bills Purchased' by the Berbice branch, between 1848-1850. It also contains the revenue the branch reported from its exchange business. The latter, of course, included both the profits from the purchase of sterling bills as well as the sale of drafts on London. Assuming the increase (or decrease) in sterling bills purchased by the bank was a direct function of the increased (decreased) agricultural production of the colony, suggests a correlation between the weather reported, the expected effect and the actual effect. Although, a much more untenable

assumption, clearly, if the demand for sterling drafts are assumed to have been, ceteris paribus, unchanged, a further correlation between the weather and the exchange revenue of the branch suggests itself. The actual amounts, however, are not as significant as their change over time. These are combined with the reports about the weather, in Table 5, below. A careful look at the table shows how a stronger correlation was not possible given the insufficient data. It is merely suggestive. The reports of favourable weather, in the first half of 1848, for example, are borne out by the increased value of 'Bills Purchased' by the Berbice branch, despite heavy rains in mid-year. Much longer spans of unfavourable weather, in 1849, were followed by a sharp fall in the exchange revenue of the branch. Finally, despite the bad weather in the first quarter, in 1850, the mid-year promised a large crop, only to be reduced soon after. The revenue to the branch increased but at a lower rate than that of 1848. Any more significant conclusions require more detailed data about the weather and its affect upon the production of sugar, etc., which is beyond the scope of this thesis. This section has simply shown the threat to banking presented by the vulnerability of the main economic activity in the colonies to changes in the weather.

TABLE 5
THE EXPECTED EFFECT AND ACTUAL EFFECT
OF THE WEATHER
UPON THE STERLING BILL PURCHASES OF THE COLONIAL BANK
1848-1850

| Ref: | Date | Weather | Expected Affect | % <> Bills Pu'chd | % <> Revenue |
|---|---|---|---|---|---|
| [92] | Apr 15 | favourable | good for planting sugar | | |
| [93] | May 2 | unusually favourable | good for estates | | |
| [94] | Jun 15 | heavy rains | against sugar making | | |
| [91] | Dec. 1848 | | | + 56% | +34% |
| [ 95] | Apr 2 | very wet-clearing | should it continue to clear sugar making will go on much better | | |
| [ 96] | July 2 | most unfavourable | for sugar making | | |
| [ 97] | " 4 | continously bad | all sugar making stopped | | |
| [ 98] | Aug 16 | very trying | sugar making at great loss | | |
| [ 99] | Sep 17 | very favourable | for sugar making | | |
| [100] | Oct 17 | fine showers | sugar making going on | | |
| [101] | Nov 17 | heavy rains | sugar making retarded | | |
| [ 91] | Dec. 1849 | | | -28% | -53% |
| [102] | Feb 2 | very heavy weather | disappointing | | |
| [103] | Apr 2 | cont'd heavy weather | productive of very general injury to estates | | |
| [104] | May 3 | most favourable | large crop expected | | |
| [105] | " 13 | very heavy weather | inconvenient to planters | | |
| [ 91] | Dec. 1850 | | | +29% | +11% |

Note: The bench mark for measuring the change in Dec. 1848 was June 1848 since no accounts are extant for Dec. 1847.

## (b) RISKS ASSOCIATED WITH COLONIAL BUSINESS PRACTICE

The weather was not the only risk unique to the colonies. The Colonial Bank archives reveal three major risks associated with colonial commerce.

### (i) SPECULATION IN THE COLONIES

Business risk was an unavoidable cost of colonial commerce. In a letter written to his colleague (Robert Comrie) at St.Thomas, the manager at Antigua (William Thompson) gave a common-sensical response to what must have been a querry on the credit worthiness of a customer. The response reveals more about the accepted uncertainty and risk associated with colonial commerce than it does about the credit standing of the customer in question.

> "... these parties [who Comrie has asked about] are in good credit here at present, but I cannot reply to your question relative to futurity [sic]. You are aware of the uncertainty of human affairs, however I think they have as good chance of prospering as most of their neighbours."[106]

The uncertainties of colonial commerce were compounded by the speculative nature of the colonial planters and merchants. Large initial capital was needed by the planters to buy slaves before emancipation. Substantial and regular operating capital was needed to pay them afterwards. [30] The Jamaica Bank prospectus foresaw the break-up of larger estates owned by absentee owners to small resident proprietorships. Where large estates were broken up as in Trinidad, it was often the resident merchant who

seized the dream of a life-time, which perhaps had brought him to the colonies, to be come a full-fledged member of the 'colonial landed-gentry'. [107] But lacking a substantial personal wealth, these merchants were more vulnerable than their predecessors. Edward Carpenter argued that such small proprietorships, in Trinidad, enhanced the risks plaguing the colonial economy. [108]

Speculation to the merchant was a way of life. Gearing or high leverage (i.e., using borrowed capital to operate) were the operating methods of successful merchants. Professor East describes a similar predicament for the North American merchants whose success or credit worthiness was measured by their indebtness in England. [109] Their ability to draw bills on England, that would be honoured in anticipation of their exports, was the criteria for their credit worthiness. The system, however, was wide-open for abuse. The accepted image of credit-worthiness allowed--and perhaps even encouraged--gearing by the merchants to the full extent of their bill drawing ability. Once trapped into having to service their debts when they exceeded exports, they sometimes, with the tacit collusion of their English partners, began to draw accommodation bills. Accommodation bills did not, necessarily, present a problem. So long as they were later secured by a bona-fide transaction or a consignment of produce which was at hand to be exported, the bill could be settled when it fell due. The danger would arise when the money from such accommodation bills were used for speculative purposes which soured, leaving the colonial merchants unable to account

for their debts. Carpenter warned, in a circular he sent to managers in 1878 not unlikely from many years of experience in the West Indies, to beware of such speculators. {110} The British Guiana Bank reported to its shareholders, at their general meeting on Jan. 29, 1847 {111}, that they were obliged to curtail their operations in Berbice because of such speculation.

The detailed history of one such speculative venture that failed was narrated in a private letter from Governor Light of British Guiana to Lord Russell. {112} It is an illustrative example of the foregoing discussion.

Speculation was so widespread and acknowledged as a potential risk and a harbinger of disaster that it was even alluded to--with tongue-in-cheek--in poetry. The Antigua Herald & Gazette on Sat., April 15, 1848, contained a poignant, if humerous, account of speculation in their 'Poets Corner'. {113}

### (ii) VULNERABILITY OF THE COLONIES TO CRISES IN THEIR TRADING PARTNERS

The role played by the colonies as a middleman to the European trade with North and South America, discussed earlier, had its own risks. Commercial crisis at either end meant suffering and bad times. The risks associated with the English end will be discussed later. A typical example of the risks associated with the American trade was illustrated in the 'Money-Market and City Intelligence' column of the London Times of March 7, 1848, referring to the trade between Venezuela and the Island

of St.Thomas:

> " From St. Thomas the accounts state that the news of the desperate revolution amongst their neighbours at Caraccas [sic] had completed the depression and distrust which before prevailed. Worse times had hardly ever been known in the island, and it is affirmed that it will be almost ruined if the troubles at Caraccas should prove sanguinary and of long-continuance." [114]

In their first report to the proprietors [115], the directors of the Colonial Bank reported the resolution of the financial crisis in the United States as a good and hopeful sign for the bank--revealing the interdependence of the region and the vulnerability of the colonies to the economic instabilities of their trading partners.

### (iii) DIFFICULTIES ASSOCIATED WITH DEBT COLLECTION

It was clear to the newspapers as well as the prospective bankers that the most "scandalous" [31] obstacle to banking in the West Indies was the lack of regularity in the payment of debts and its unenforceability in law. The Royal Gazette of British Guiana welcomed the otherwise undesirable banking system if it led "... to the attainment of something like punctuality in mercantile engagements, the want of which is at present so deplorable". [30] The Jamaica Bank prospectus listed the changes made in the debtor and creditor laws of the island, bringing them more into line with the bankruptcy laws of England, as reducing the risks and therefore encouraging the establishment of banks in Jamaica. {116}

The attempt by the Colonial Bank in Demerary to introduce legislation in the local legislature, to alter the debtor and creditor laws, was (fortunately) given prominence in the local newspapers. This permits a detailed insight into what these laws were and how, in order to reduce the risks to banking, they needed to be amended. The manager, Peter Rose, was himself a prominent member of the local legislature and argued the case for changes, in the form of a petition to the governor. He argued that the laws, as they existed, allowed:

> --executors to freeze payments of debt from a deceased man's estate for more than a year after his death;
>
> --easier recovery of promissory notes in default compared to that for a bill of exchange;
>
> --the endorsers of promissory notes, and all other commercial papers, except bills of exchange, to be free of liability as an endorser of such; and
>
> --preferential rights for merchants who had delivered goods to a bankrupt estate within a certain period before the levy of execution. [117]

This law, he argued

> "... as now practised [sic] presents some difficulties to the profitable working of the Bank, which it is highly expedient should be removed, as pressing not only on the Bank, but on the commercial interests of the Colony in general." [117]

The strategic objective of the Colonial Bank to remove such legal threats was not applauded by all the colonists. The Royal Gazette carried a report of a town-meeting on Sat., Oct. 29, 1836, which criticized the aims of the bank as seeking to undermine the privileged relationship between the planters and

the merchants who supplied them with provisions. {118} The Gazette's editorial, on Nov. 10, 1836, explained how. The preferent claims of merchants on bankrupt estates was necessary, it argued, to off-set the better information the banks could acquire by their privileged position. It was also necessary to prevent a rush to the courts to establish claims--resulting in pressure on the courts and more expense to the merchants [119]. This argument was later echoed by the directors of the British Guiana Bank in their report to their shareholders on July 25, 1842. [120] In 1836, the Colonial Bank had argued that the preferential claims of merchants enhanced the risks of investing in the colonies. In 1842, the British Guiana Bank, in its directors' report above, was arguing that the abolishment of preferential claims made creditors more unsympathetic to the tardy settlement of the debts owed them, thus driving more business to the bankruptcy courts. The increased bankruptcies, in turn, undermined confidence in the colonies and discouraged investment from England. Finally, the Gazette showed its prejudices by arguing that merchants rendered a real (!) service and should be given prior claim to money-lenders and banks. [119]

Changes in the law were significant in so far as they made it difficult for those, who could, but were not inclined to pay their debts. It had little to offer the (plight or) threat inherent in lending to those who wanted to, but could not--financially--pay. Commercial risk could not obviously be legislated away. As long as merchants extended themselves they

risked not only their own livelihood but those of their partners and counterparts. The manager of the Colonial Bank in Demerary explained this to the court, in London, in a letter, dated June 29, 1839.

> "... I found parties of known respectability unable to meet their engagements to the day, and even in some instances obliged to be sued.- Not that they were deficient in means, but the parties who owed them money were in their turn pressed by the same circumstances as themselves. " [121]

The intertwined dependence of the moneyed interests in the colonies enhanced the risk--much like a row of dominoes. In a small island economy it was almost inevitable that one merchant was connected with another, in the form of a guarantor, an endorser of bills, customer with outstanding payments, or fully liable partner. The risk was to be found in the fact that the welfare of a large number of them could well depend on the success or failure of one or two of them. Neither was there much reliability in fixed wealth. The prospectus of the Jamaica Bank argued that the existence of registry offices (where property, deeds of settlement, liens, transfers, and judgements of the courts were recorded) were an added incentive for banking in Jamaica. [30] What it failed to note, however, was that legal title said nothing about the market value and hence the security of debts secured by such. Property, in general, in the West Indies appears from the archives of the Colonial Bank to have been over-valued and consequently a bad measure of credit-worthiness. When the Colonial Bank had to realize the property

of a bad debtor in Berbice, for example, whose assets included:

| | |
|---|---|
| $15,000.- | Premises in New Amsterdam, |
| 1,666.- | 10 Year Lease of a Store in the Country, |
| 300.- | Land in Queenstown, and |
| 2,500.- | Merchandise and Furniture, [122] |

the bank, not unexpectedly, found "... noone [sic] here that we know of in a position to purchase such property at present". The risks inherent in bad debt were, in hindsight, significant ones. Their effect on the prosperity of the bank will be discussed later, at length. Here it is only important to note, in passing, that even if they could not (or did not) appreciate the extent of the risk, the promoters of the Colonial Bank must have realized its existence and have made a strategic decision to invest their capital. For to them the risks inherent in commerce were perhaps no worse, in the colonies, than elsewhere. Much more is made of the risks in the weather (referred to earlier), the risks associated with competition for West Indian exports, and protection from it in the form of public legislation in England. The chairman of the Colonial Bank explained this to his shareholders:

> " In conclusion, the Directors [of the Colonial Bank] are happy to state, that the increase in the business of the Corporation has thus far been unattended with undue risk, and unless the welfare of the West India Colonies suffers from public measures or calamitous seasons, they see no reason why the transaction and profits of the Bank should not continue steadily to increase, with all due regard to security." [123]

## (c) THE RISKS ARISING FROM COMPETITION FOR COLONIAL SUGAR EXPORTS

### (i) THE THREAT

If the emancipation of slavery opened up new opportunities it also posed the most serious threat to the international competitiveness of West Indian sugar exports. The abolishment of slavery in the English colonies resulted in a rise in prices vis-a-vis slave grown sugar, in such countries as Cuba. This, on its own, would not have presented a critical threat. The advocates of emancipation, in Westminster, had conceded discriminatory tariffs to protect free-grown sugar. The risk lay in the artificiality of this protection--merely a legislated comparative advantage. The law and the tariff could be as quickly and as easily repealed as it had been enacted.[124] Parliament was inevitably lobbyied by advocates of free trade and those interested in cheap imports to reduce, in 1846, and repeal, in 1854, the protective measures supporting the export of free-grown sugar. [125] The London Times carried a discussion of the issues in its 'Money-Market and City Intelligence' column on June 22, 1840. {126}

The first indications of a change in the sugar duties was noted by the manager of the Berbice branch in a letter to the secretary, dated June 8, 1841.

> "We take due note of the Proceedings in the House of Commons relative to the proposed alteration in the duties on sugar. This measure, if carried into effect will unquestionably produce much distress throughout the West Indies, and we shall as you suggest excercise the greatest caution in all our operations...." [127]

The measure to reduce the tariff on slave-grown sugar, despite colonial opposition, became an Act of Parliament in 1846, proving how real the risk had been. The Colonial Bank brought all of its influence and power to forestall the disastrous consequences of the act. A special court meeting was convened on Nov. 2, 1847 to appeal to Lord John Russell and the Colonial Office. [128] This was followed by further presentations and protests but to no avail. [129] The attitude of HMG and the sympathy of the Treasury in particular, were , as will be seen later, never unequivocably favourable. Expectedly, the impact of the Act of 1846 was severe on the colonial economy and therefore on the profitability of the banks. That half-year ending Dec. 31, 1846, the British Guiana Bank reported to its shareholders that "... the exportable productions of the Colony have fallen off one third as compared with those of the previous year...." [130]. At the next general meeting held on July 30, 1847, the directors of the British Guiana Bank confessed that the crisis had affected the profits of the Bank.

> " The mercantile Trade of the Colony has been in a very depressed state for some time past, and notwithstanding the prospect of larger crops being about to be reaped this year, the extreme low prices in the Home markets have greatly affected the business of the Bank, and are likely still to continue to do so until things find their level under the Free Trade System." [131]

The Colonial Bank's general meeting of Jan. 11, 1848 was given a detailed report of how the act affected them. {132} Without

protective tariffs slave-grown sugar was nearly half the price of West Indian sugar! The London Times of Thurs., June 22, 1848, published extracts {133} from private correspondence crying out against the effects of the act and threatening to secede from the motherland if she persisted to ruin her West Indian colonies.

## (ii) ITS STRATEGIC SIGNIFICANCE

The strategic significance of this threat was evident to the banks. They were prepared to enter the colonies only because the risk was considered acceptable. When the risk was clearly no longer acceptable, in 1848, the Berbice manager wanted to extricate the bank's capital [134] that had been invested in the colonies. This was, of course, by this time, more easily said than done. As early as 1842, the West India Bank, established in 1839, petitioned HMG to retract its capital investment plans on the grounds of high risks, fall in colonial exports and, in general, bad times--see later discussions in Part C. [135] What may have induced, then, these directors in 1836 or 1839 to happily accept such a risk ? At the general meeting of shareholders of the Colonial Bank, the chairman explained that he and the other directors had relied upon the assurances and "... pledges... given by the Government and the Country through Parliament". {132}

# CHAPTER III
# THE COLONIAL CURRENCY

## (1) THE STATE OF THE COLONIAL CURRENCY AS SEEN FROM CONTEMPORARY SOURCES

In surveying the West Indies, in 1836, no prospective investor could fail to notice the anomalous state of the colonial currency. It was, perhaps, best characterized as:

--consisting of too many varied forms of money, and

--not enough of any one form to provide an effective circulating medium.

Neither could the prospective investor afford to ignore these facts. The state of the colonial currency was both an opportunity to exploit as well as a threat to consider. This chapter will first focus attention upon the state of the colonial currency, as it appeared from contemporary sources, and then proceed to discuss the opportunities and threats it presented to the colonial banker.

### (a) THE DEMAND FOR MONEY IN THE COLONIES

The pre-emancipation trade of the West Indies was predominantly a non-moneyed system. The slaves, of course, received their sustenance and upkeep in kind--albeit at the discretion of their owner. The suppliers of provisions, on the other hand, particularly in England, were wont to be paid when the produce exported from the colonies were sold there. In turn, this also required no physical transfer or movement of

money. The bill of exchange, discussed earlier, was a safer and more convenient instrument--given an advantageous rate of exchange--for settling debts. Barter arrangements were also not unknown. Barter characterized the trade, for example, with South America, where English manufactured goods were traded for mules, oxen, cotton, hides, etc. [136] These facts, however, did not obviate the need for money altogether. Small differences, inevitably, arose in trade which needed to be settled in specie.* Nor were all pre-emancipation labour services enslaved. The wages of public officers (such as the police, customs officers, judges, clerks, etc), private staff (such as hired managers, clerks, etc.), as well as the service sector (which included the services of solicitors, accountants, as well as tavern and inn-keepers, etc), invariably, formed a moneyed economy--even if it were only a small one. After emancipation, of course, the need for specie to pay wages and settle debts, in even a small consumer market, generated more demand for a circulating medium of exchange. These changes were well understood by the contemporary businessmen. The prospectus of the Bank of Jamaica, in 1836, pointed out that:

> " The abolition of slavery has... produced an almost unimaginable change in the prospects of our West India possessions.
>
> ....

---

*Footnote: For a detailed description of such colonial barter arrangements see Baxter, W.T. "Accounting in Colonial America" in Littleton, A.C. & Yamey, B.S. Studies in The History of Accounting. London: Sweet & Maxwell, Ltd., 1956. p.272-288.

> While slavery existed, the clothing and other supplies were imported from England by the proprietor, and the produce exported, without, in either case, distributing in England the proceeds of the crop, or the bare expenses of production. It is evident... that... the payment of wages in lieu of clothing and supplies must bring about a much increased circulation." [30]

Each of the colonies needed a uniform medium of exchange, including a form of metallic currency, but found it impossible to retain specie in an open economy. As soon as the exchange shifted against the colony, its 'good' currency (e.g., specie) would be exported while 'bad' (e.g., debased) money found its way into circulation--until, in theory, the exchange shifted. In reality, an incomplete process of 'financial osmosis' left the colonies with a mixed bag of currencies. What is know today as Gresham's Law was not lost upon the colonial merchant or banker.

In one of the earliest reports, for example, by the manager of the Colonial Bank at Antigua to the superintendent of branches in Barbados, dated Sept. 2, 1837, reference was made to the drainag of small British specie from the island due to the high exchange rates prevailing. [137] This was echoed by the manager in Demerary, whose report to London on July 18, 1838 noted the difficulties of supplying specie for the colony's wage bill:

> "The great change which has taken place in the state of the Social System throughout the West Indies, consequent upon the abolition of the apprenticeship system [which was an interim step to full emancipation], will render it impossible to furnish specie sufficient to pay the Weekly Wages of the labourers--if the currency be not immediately placed in a healthy state--the present rate of exchange in America causes a great drain of specie to the United States." [138]

## (b) THE VARIETY OF MONEY IN THE COLONIES

The Barclays Bank's A Banking Centenary describes the variety of money circulating in the West Indies and, therefore, handled by the branches of the Colonial Bank as "... consisting of such a mixture of coins [that it] must have read more like an inventory of pirate's hoard than a Banker's Treasury". [139] A contemporary chronicler of St.Vincent, circa 1834, described the several forms of money and their short-comings:

> " The Gold coins in circulation are exclusively Spanish and Portugese, the Doubloons at the value of 16 Dollars with their aliquot parts in proportion. The Johannes passes by weight at 9 shillings the pennyweight. Formerly this coin was the most common throughout the Islands each Colony mutilating their own by plugs and Owner's mark to prevent exportation. From these practices the coin became so deteriorated that in 1818 it was called in at a considerable loss and Doubloons came into more general circulation.
> The silver coins are the Dollar which passes at 10 shillings currency, and colonial coins that pass at one-fourth, one-eighth, and one-sixteenth. The British Silver occassionally forms part of the Commissariat issues from which source nearly all the bullion of the Country arises, but it is speedily collected by the Merchants for remittance to Europe and is therefore of little use as a circulating medium; the English copper money and a barbarous Colonial Coin with the equally barbarous names [sic] of Stampees and Black Dogs complete the catalogue." [140]

Fundamentally, there were only four types of money:

--gold coins,

--silver coins,

--copper coins, and

--colonial money, including tokens and private mints.

The variety derived from the numerous sources or issuers of these. For example, gold coins of South American origin, popularly known as the doubloon, circulated alongside the English sovereign and the American eagle. Silver coins were minted both in North and South America, as well as, in England. The U.S. dollar and its aliquot parts circulated alongside the Spanish or silver dollar and its parts, some of which were minted by H.M. Royal Mint. This was explained in a letter extant in the PRO from the mint to H.M. Treasury, dated Aug. 15, 1836.

> " In the years 1820 + [sic] 1822, a small Coinage of the fractional parts of a Dollar was ordered, at the recommendation of the Colonial Office, a portion of which was sent out to the Mauritius, + the remainder to the West Indies.-
>
> The Coinage consisted of 1/4, 1/8, + 1/16th parts of a Spanish Dollar, having the impression of the King's arms for the obverse of the piece, + an Anchor + inscription for the Reverse." [141]

In addition to these the mint also issued British silver and copper coins and private issues or tokens for particular colonies and/or individuals. In the same letter, above, the mint explained that

> " During the last three years considerable supplies of British Silver Coin, and also of small Silver Monies of the value of three pence and three half pence, have been issued from the Mint, under their Lordships authority, and remitted for the use of the currency of the West India Islands-- Coinages also of silver Tokens of the denominative value of the Guilder, + [sic] parts thereof, have been carried on at various times at the Mint, for the Colonies of Demerara + Essequibo." [141]

These tokens were an illustrative example of the desperate

attempts at circulating an independent form of money which would not (the colonists hoped) be exported out of their colony. The more intrinsic value such tokens possessed--usually silver--the more difficult it was to prevent their exportation or recycling. Therefore, although denominated in current dollars, some coins and tokens were made of materials that possessed no intrinsic value of their own.

The dollar was the most widely known and used denomination in the colonies, with the exception of Jamaica whose currency was denominated in sterling. In order to distinguish the Spanish or silver dollar from local dollar-denominated money, the latter was known as current dollars. None of these, however, commanded the par value of the Spanish dollar. In Berbice, for example, the manager of the Colonial Bank reported, on July 22, 1848, that the 'colony bits' were circulating at 4$^{s}$/- to the silver dollar--a discount of 4%. [142] In Antigua, earlier in 1839, current dollars were only worth $0.96 silver dollars--again a discount of 4%. [143]

In British Guiana the planters, faced with the alternative of a 5% premium in order to keep silver coins from being exported, resorted to the issue of tickets or coupons for the labourers to buy provisions. This 'ticket and truck' system, as it was known, was unpopular with the workers, because of the obvious exclusive arrangements that were necessary between a planter and shopkeepers. These arrangements not only restricted the workers to particular shops, but their worth was only as good

as the planter's credit with the merchant. {144}

Often issued as mere I.O.U.s of planters, merchants, or perhaps the island treasurers, colonial money or current dollars represented a localized attempt to settle debts within the colony. Having no intrinsic value, they were only as good as the issuer. With no specie backing and not payable on demand, even the notes of the island treasurers, such as the 'Island Cheques' of Jamaica or the 'Joes' of British Guiana, were of little value. H.M. Treasury, in London, looked upon such notes with disapproval and repeatedly urged their early redemption. {145} This, in turn, reduced the circulating medium even further.

No fixed value of exchange existed before 1838 for the multitudinous forms of money in the colonies. Creditors were indifferent to receiving any particular coin or paper, so long as they could, in turn, pass it on to their debtors at the same value. If it was received at a lower (higher) value, than it could be passed on to others, the creditor stood to make a profit (loss). In other words, the demand and supply of money in the colonies was influenced, not by quantitative forces alone, but qualitative ones as well. Different forms of money were valued differently by different people. This was an obvious reason why the colonies found it difficult to retain specie in an open economy. Partly as a measure to rectify these anomalies, and, partly as a weak substitute for the lack of definitive currency reform, HMG, in Sept. 1838, sought to fix the rates of exchange for the various forms of money by proclaiming them legal tender

at prescribed rates of exchange--see Appendix for the Queen's Proclamation of 1838, as published in Nevis. {146} The details of the 'politics' behind the compromise which had led to the proclamation are, of course, beyond the scope of this thesis. They are extant in the PRO. The strategic significance of the Queen's Proclamation, on the other hand, will discussed with the bank's particular opportunity or strength it affected.

## (c) SHORTAGE OF SPECIE

Despite the variety in the coins circulating in the colonies, there never seemed to be enough coins to meet the needs of the respective island economies. The Colonial Bank archives are full of reports such as--for others see Appendix {147} :

> "We shall reply to your circular of the 30th [i.e., June 30, 1838] by next opportunity [sic] in the meantime we may observe that as soon as the labourers are all working for wages there will be a great demand for Dollars and small change of which there is even now a great scarcity [in Berbice: July 12, 1838]." [148]

Contemporary sources were not at a loss to explain this shortage:

--The exchange

In a letter to H.M. Treasury, dated Aug. 15, 1836, the mint attributed this perennial shortage to

> "... increased demands of the Colonies, particularly since the emancipation Act [sic] has passed, and as it is apprehended that the British coin now sent out will again be liable to return to this Country, owing to the operations of the Exchange...." [149]

--Hoarding & Withdrawal

The British Guiana Bank, in explaining its contribution towards increasing the circulation of the colony, noted that

> "There are constantly large sums of money lying for the time unemployed in the various public offices and Institutions of the Colony, which might be turned to a beneficial account; and occasionally from very large amounts of the circulating medium being thus withdrawn from general circulation, the want of the usual supply of the currency is injurious to the Community." [150]

--The Commissariat & Colonial Governments

The British Guiana Bank was joined by the Colonial Bank who argued, in a letter to the Chancellor of the Exchequer, dated Jan. 14, 1840 that:

> " The system hitherto pursued by the officers of His Majesty's Government in the West Indies of locking up in chest the Public monies received until periods when payments are to be made, has been found to act injuriously to the Interests of the various communities, by withdrawing from circulation large sums for a time, during which money becomes scarce + [sic] dear; + by throwing them again into circulation in masses at certain periods, when money necessarily becomes plentiful and cheap, thus causing a constant fluctuation in Exchanges and rendering it almost impossible to fix a value on property. The Local Legislatures in like manner have large sums locked up from which they derive no advantage, but are put to the expence [sic] necessary to keep a proper account of these monies which might be saved were they deposited in the Bank [i.e., The Colonial Bank], whilst the Public are inconvenienced by this withdrawal from the circulation." [151]

In another letter written to Trevelyan, then the assistant-secretary of the Treasury, on March 7, 1848, the Colonial Bank refers to the drain on the colonial circulation caused by the :

> "... inconvenience experienced in the West Indies through the scarcity of coin... aggravated by the Commissariat there continuing to sell bills, and suggesting that for the present, the Commissariat Chests should be supplied from other sources." [152]

In yet another letter, dated May 13, 1848, the Colonial Bank cited the case of the Navy who when paid in the West Indies, through the Commissariat, took the coins away with them when they sailed. [153] How far were the Colonial Governments to be blamed? There is no doubt that they ought to have striven to alleviate the shortages but were either not able or willing to do so. Not yet a powerful enough force in the colonial economy, they were themselves perennially short of cash. When they had some, the opportunity to reap a premium by exporting them was too tempting to their mercantile backgrounds, in the short-run, to overlook. Thus their contributions to increasing the circulating medium was only to issue sterile 'Island Cheques' or 'Colonial Notes'. The opportunity for the prospective banker lay in these often highly discounted values of the colonial currency.

## (2)OPPORTUNITIES IN BUYING & SELLING SPECIE

By buying the 'Island Cheques' (which were drawn on specie invested by the colonial governments in London) at a discount, the colonial banker could earn a profit from supplying the specie to the colony. By buying the various coins--whether they were doubloons, Brtish silver, and/or American dollars--

where they were at discount and re-exporting them to other markets--both within and without the West Indies--where they could be resold for a premium, the prospective banker could earn another profit. Finally, if the banker was able to assist in the redemption of debased or clipped currency at a sufficient discount to pay their recycling costs, the banker could earn a compounded premium for buying, re-selling, and buying again, from the same market. The archives of the Colonial Bank are an invaluable source of data on how large, if any, some of these rates of return were.

Trading in bullion and more particularly in specie was a formal objective of the colonial banking companies. Their charters and general notices, to the public, declared these activities as being within the sphere of proper banking. The charter of the British Guiana Bank included "... investments, purchases, sales, or any dealings in bullion...." [154] as part of its legitimate banking operations. The Privy Council in granting the Colonial Bank Charter permitted the "... general dealing in Money...." [155] as one of its banking activities. The Colonial Bank charter, itself, declared one of its objectives to be the "... dealing generally in Bullion, [and] Money...." [156] Finally, a notice placed in the Royal Gazette of British Guiana, on May 2, 1837, gave as one of the

" GENERAL TERMS OF BUSINESS

....

Specie and Foreign Bills of Exchange will be received and supplied at a fair and reasonable rate, having reference

> to the value of money in Great Britain and America, and other countries, with a view of facilitating remittances between the West Indies, British America, Europe, &c.
>
> ....
>
> For further particulars apply at the Bank." [157]

The anomalous state of the colonial currency was well suited for the achievement of these objectives.

## (a) DOUBLOONS

Before the Queen's Proclamation of Sept. 14, 1838, the doubloon had found its own equilibrium of supply and demand in each of the respective colonies. The differences in these rates allowed for a potential profit to anyone from shipping doubloons from one colony to another. But a more interesting, if less apparent, opportunity existed for the prospective banker who--like the Colonial or West India Bank--was prepared to establish branches in numerous colonies. Such a banker could earn an arbitrage in remitting money by denominating it in doubloons, without immediately having to ship any coins. This is illustrated by the following hypothetical example. Assume someone in Antigua wanted to transmit $960.- to someone in Barbados. By receiving payment for it in doubloons, at the current rate in Antigua, of say $15.50 per doubloon, the banker issued an order on its branch in Barbados which could then be mailed to the beneficiary. The banker's account in Antigua would then show:

| SOLD | | PAYMENT RECEIVED | |
|---|---|---|---|
| 1 Inter-Colonial Order | $960.00 | 60 doubloons @ $15.50 = | $930.00 |
| | | Cash | 30.00 |
| | $960.00 | | $960.00 |

When the order was presented at Barbados, however, the branch there would have honoured it at the current (or predetermined, but different) rate for doubloons in Barbados. Assume this to have been $16 per doubloon. The banker's account in Barbados would then show

| Received | | Paid | |
|---|---|---|---|
| 1 InterColonial Order= | $960.00 | 60 doubloons @ $16= | $960.00 |

Overall, the banker had purchased 60 doubloons for $930 and sold them for $960, earning a profit in colony A of $30. This arbitrage continued so long as this profit was less than the cost (to the remitter) to ship the doubloons from A to B and, of course, as long as B had doubloons or could get them from elsewhere at less than the profit earned in A. This last constraint was again well suited for the banker who had many branches or agencies in the various colonies. The Colonial Bank in Barbados, for example, borrowed doubloons from the Commissariat when it ran short until it was supplied with them from other branches. A letter is extant in the PRO, dated July 9, 1838, from the superintendent in Barbados to the deputy-general of the Commissariat, also in Barbados, soliciting a loan of 2000 doubloons for 3 months. As collateral the bank offered to deposit $32000 silver dollars--i.e., $16 for each doubloon. The Commissariat, in turn, reported the transaction to the

Treasury in London, in a letter also extant, dated July 23, 1838. This letter was read at the Treasury meeting of Oct. 5, 1838. The Treasury noted that it had no objections so long as the commanding officer of the Commissariat had none. The Commissariat wrote again on Nov. 17, 1838 confirming the approval of the commanding officer and reporting that the doubloons had been returned at the end of 3 months. [158] The archives of the Colonial Bank contain numerous examples of such an arbitrage after the Queen's Proclamation fixed the value of the doubloon, in the British colonies, at $15.36, or below its hitherto current value of $15.50 [159] and its current value in the non-British colonies such as St.Thomas, Martinique or Guadaloupe where it circulated at $16.00. It is much more difficult to identify such an arbitrage before the Queen's Proclamation. Not because it didn't exist since references to it are there. Early records were just not separately kept of these transactions. The first questionnaire, for example, issued by the Colonial Bank's superintendent of branches and circulated to all the branch managers, on Dec. 13, 1837, sought

> "The relative value of the Doubloons as regards the Dollar, and whether the former coin has any and what legal fixed value [locally] ?" [160]

The correspondence, between the managers, comparing their relative values of the doubloon and sharing the latest intelligence is a further allusion to the existence of the different rates and, therefore, a potential for arbitrage. The

manager at Demerary, for example, reported to the superintendent at Barbados that "we have only $3440 in doubloons on hand--this coin is getting in demand here for America at $16--and it is likely they will bear a premium soon". [161] The higher rate of the doubloon in New York is also mentioned by the manager at Antigua who asked permission from the superintendent to make orders on New York payable in dollars at $16. [162] Finally there is evidence--matching the earlier hypothetical illustration--that New York has lost its stock of doubloons and has received some from the West Indies. The manager in Demerary once again reported: "I trust that the dollars shipped from hence and the doubloons from Barbados by the [S.S.] 'Arrow' to New York will turn to good account." [163] From a petition written on June 2, 1838, by several merchants of Trinidad, to the governor-general, that has survived in the PRO, it is clear that the doubloon bore a premium of up to 50 cents in America and a $1.00 in Cuba. [164] It is unfortunate that details of the cost and values of the doubloon, in the various colonies, before the Queen's Proclamation, were not diligently kept by the Colonial Bank. A table could have been constructed to show the rates of return from the arbitrage. Nevertheless, there is enough circumstantial evidence to make a plausible case for the fact that the opportunity existed. By our earlier assumption its existence meant the Colonial Bank saw it as one of their strategic opportunities.

## (b) DOLLARS

The buying and selling of silver dollars requires a separate discussion from that of doubloons for several reasons. Firstly, the use of the dollar was more widespread as a circulating medium in the colonies. It was more familiar to a larger number of people--both white and black. This meant, in turn, that the demand for dollars was larger than that for doubloons. But it also meant that there were more natural (i.e., those who in the course of their business used the dollar, such as banks) and speculative (i.e., those who imported and exported the dollar for arbitrage) suppliers. This increased competition reduced the lucrative opportunities for arbitrage that may have otherwise existed. Finally, to the natural suppliers of dollars there was an inherent or innate incentive to import dollars in order to conduct their object or business. To them the exportation of dollars, however profitable, was a sub-optimum strategy. Even if a profit could be shown to exist in exporting dollars--as one can be seen from Table 7--the bankers, for example, would have found their other profits derived from the issue of notes, loans and the exchange starved or sacrificed. In order to conduct their other profitable operations, the banks needed a standardized currency such as the dollar. This is reflected in their espousal of currency reform discussed later.

The exchange, in particular, is important enough to

warrant a separate discussion of dollars. Unlike doubloons which could, but need not, be used as the unit for intercolonial remittances, the dollar was the unit for settling debts between the colonies and with London. This, in turn, meant that the banker's profits from the exchange business, discussed earlier, were an inverse function of his profits from the arbitrage in the sale of dollars.

In order to explain this in detail, Tables 6 and 7, below, have been compiled from the minutes kept by the court of directors and the treasury committee of the Colonial Bank. These tables show the costs of importing and exporting dollars from the West Indies on a c.i.f. per $ basis. The prices recorded in the minutes of the Colonial Bank are often in terms of pence per ounce. Fortunately, several enteries exist where the total value in dollars and pounds sterling are also given--such as the one for April 13, 1837:

> "$9216 were purchased at $4^{s}/9^{3/4d}$ per oz. for a total cost of £1928 Sterling." [165]

The weight of one silver dollar calculated from these given facts comes to 0.869 oz. per $. This is only 0.1% different then the average of the weights calculated from three--albeit much later--entries between March 1846--Feb. 1847. [166] The multiplier of 0.869 was, therefore, used to convert the price per oz. in Table 6 and 7 to a price per $. A further adjustment was also necessary in Table 6. The price per oz. was the purchase price and, therefore, only an f.o.b. price. Those for Table 7 were the

prices at which the dollars were sold and, therefore, already reflected the c.i.f. value. An entry in the records of the treasury committee, dated Nov. 11, 1836, added 1$^{p}$ per oz. to the f.o.b. price from Vera Cruz to obtain the c.i.f. value. This was assumed to be--for lack of a better measure--the maximum and, therefore, the case throughout Table 6. The entry also estimated the payment for the dollars from Vera Cruz to be settled in 30 days. This, presumably, had no bearing on specie purchased in London and, furthermore, at rates of interest (held down by the usury laws) such as 5% per annum, the approximately 0.5% per oz. was assumed to be insignificant and not accounted for. In theory, of course, it would be off-set by the opportunity costs of the specie while it was enroute.

Corroboration for the above method used to construct Tables 6 and 7 exists in the, albeit much later, 1840 negotiations between the Colonial Bank and the Commissariat (see Appendix  for details of the Commissariat business) to supply the latter with silver dollars in the West Indies.[458] Two factors limit the significance of these data to merely supportive evidence rather than actual opportunities. The negotiations were being conducted in 1840 and would not have necessarily been indicative of opportunities in 1836 or 1837. Secondly the presentation of the data had marketing rather than control or accounting purposes. Both the seller (the bank) and the buyer (HMG) had an interest in stating figures that would have been to their advantage. The offer of the bank, for example, dated March

19, 1840 is extant in the PRO. [167] The Colonial Bank asking price was 50 pence per dollar broken down as follows:

| | Average 1837-1839 | Jan. 14, 1840 |
|---|---|---|
| Cost of dollars imported from Mexico to the West Indies | 44.77 pence | 45.25 pence |
| Duties, commissions, inland freight, ocean freight and insurance = 10% | 4.47 | 4.52 |
| | 49.24 pence | 49.77 pence |
| Interest loss from the 30 d/s usuance for Treasury bills and the time it takes to post the bill to England : based on average of 2.5 months = about 1% | 0.49 | 0.49 |
| | 49.73 pence | 50.[illegible] pence |

By looking at Tables 6 and 7 and Tables 2 and 3, in chapter II, it can be seen why the exchange business was a strategically more important objective. It was more profitable to sell bills on London than to import dollars. The rate of exchange at which the bank's exchange business became profitable was, perforce, the rate at which it was unprofitable to import dollars. At an average cost of 51.07$^{d}$ per $ in 1837 (see Table 6), for example, the cost of a £100 of silver dollars shipped to the West Indies would have been $469.94. By attempting to import dollars, the banker, the planter and/or the merchant could only have obtained $469.94. The merchant and/or the planter could obtain, on average, in 1837 more than $486 for his £100 bill sold in the colonies (see Table 4). The bank, on the other hand, had little incentive to import dollars for it would have cost it, on

TABLE 6
THE COSTS TO THE COLONIAL BANK
OF SHIPPING SILVER DOLLARS
TO THE WEST INDIES FROM LONDON
IN 1837
IN PENCE STERLING

| Ref: [168.-] | Date Purchased | Origin | c.i.f. per oz. | c.i.f. per $ | Loss | % |
|---|---|---|---|---|---|---|
| 1 | Nov. 11, 1836 | Vera Cruz | 58.69 | 51.00 | 0.82 | 1.61 |
| 2 | Mar. 23, 1837 | London | 59.00 | 51.27 | 1.09 | 2.13 |
| 3 | Apr. 6, " | " | 59.00 | 51.27 | 1.09 | 2.13 |
| 4 | " 13, " | " | 58.75 | 51.05 | 0.87 | 1.70 |
| 5 | " 20, " | " | 58.75<br>58.67 | 51.05<br>50.98 | 0.87<br>0.80 | 1.70<br>1.57 |
| 6 | " 28, " | " | 58.75<br>58.67 | 51.05<br>50.98 | 0.87<br>0.80 | 1.70<br>1.57 |
| 7 | May 1, " | " | 58.63 | 50.95 | 0.77 | 1.51 |
| 8 | " 11, " | " | 58.63 | 50.95 | 0.77 | 1.51 |
| | Average | | 58.77 | 51.07 | 0.89 | 1.74 |

c.i.f. per oz.= f.o.b. + $1^d$ per oz.

c.i.f. per $= (c.i.f. per oz.) x 0.869

Loss= (c.i.f. per $) - (average c.i.f. per $ bought in West Indies=50.18 pence=i.e., the cost of shipping back to England the equivalent amount of £ sterling of dollars imported. The average value of Table 7 is used).

TABLE 7
THE COSTS TO THE COLONIAL BANK
OF IMPORTING SILVER DOLLARS
FROM THE WEST INDIES
FOR RESALE IN LONDON
1837
IN PENCE STERLING

| Ref: [169] | Date Sold in London | Purchased From | Sold At c.i.f per oz | c.i.f. per $ | profit | % |
|---|---|---|---|---|---|---|
| 1 | Aug. 31, 1837 | Barbados | 57.63 | 50.08 | 0.99 | 1.94 |
| 2 | Sep. 21, " | " | 58.00 | 50.40 | 0.67 | 1.31 |
| 3 | Oct. 19, " | " | 57.63 | 50.08 | 0.99 | 1.94 |
| 4 | Nov. 22, " | Demerary | 57.75 | 50.18 | 0.89 | 1.74 |
| 5 | " 30, " | " | 57.75 | 50.18 | 0.89 | 1.74 |
| | Average | | 57.75 | 50.18 | 0.89 | 1.74 |

c.i.f. per $ = (c.i.f. per oz.) x 0.869

Profit= (c.i.f. per $ sold) - (average c.i.f. per $ bought in London= 51.07 pence=i.e., the average 1837 cost of shipping silver dollars from London to the West Indies. The average value of Table 6 is used).

the average, in 1837 (see Table _) 50.18$^{d}$ per $ or $478.27 to repatriate its £100 investment in the colonies back to England--a loss of $8.33 per £100. Competition both from other bullion merchants and bill traders prevented the banker from charging a premium for its specie, to cover the loss of repatriation. A rise in the price of specie in the colonies would have, furthermore, also raised the cost of repatriation to the banker. By selling bills on London, the banker in 1837 could charge, on the average, more than $490 for each £100 (see Table 4) invested in the colonies and remit its investment back to England for slightly more than $486, leaving a balance of more than $14 per £100 as profit in the colonies--clearly a more profitable opportunity than the loss from importing dollars into the colonies. How about exporting dollars? There was a profit to be made, shown in Table 7, from exporting silver dollars from the colonies for re-sale in London. But as noted before, this was a sub-optimum objective. From the average c.i.f. value per $, in Table 7, it can be seen that a £100 of dollars imported from the colonies would have sold for $478.28. The cost of repatriating the same £100 back to the colonies (calculated from the average c.i.f. value per $ in London shown in Table 6) would have been $469.94. A profit--in dollars--of $8.34 per £100 existed in such an operation. But it is clear from the earlier calculation that this profit margin was less than the profit from the exchange business which was more than $14 per £100. The exportation of dollars, furthermore, reduced the supply of dollars and raised

its price in £ sterling. This, in turn, meant a rise in the exchange rate and, therefore, a loss to the banker in other spheres of its operations. If, for illustrative purposes, it is assumed that the banker had liabilities in the form of notes payable on demand, deposits, expenses, etc., of $500 in the colonies, at the lower rate of exchange (say, £100=$500) it would only be liable for £100. By exporting dollars and pushing up the rate of exchange (say, to $480=£100), the banker would have automatically increased its liabilities from £100 sterling to £104„1„3. This will be discussed in more detail later on in this chapter. Finally, as long as the banker's operations were connected with the agricultural state of the colonies, a rise in the exchange rate would have necessarily made the price of West Indian exports more dearer and less competitive. In order to keep the West Indian plantations solvent and able to pay their financial undertakings to the banker, it was necessary that their high-cost (i.e., non-slave) operations be covered by adequate revenue in dollars. By a similar argument to the one above, a planter with costs of $490 would earn a profit at the lower exchange rate of $500 per £100 and become insolvent at the higher rate of $480 per £100, saddling the banker with a irrecoverable bad debt.

## (c) BRITISH SILVER

Unlike the dollar, the British silver coins which circulated in the West Indies were not as widely used nor the

basis for the settlement of the colonies' external trade. This meant that there existed an opportunity for the banker to deal in them without materially affecting its exchange business. Before the Queen's Proclamation fixed their value, such coins were at the mercy of the forces of supply and demand. By manipulating these forces, the market could be exploited for profit. This assumed, of course, that an abundant supply of such coins were available only to the bank, so that it could force its pricing strategy upon the market. As such coins were minted by H.M. Mint, it required special arrangements with the mint which a powerful London based bank, with prominent and powerful directors, could arrange. The strategy the Colonial Bank adopted in order to achieve such an objective:

--would take up an inordinate amount of the chapter;

--is well documented and extant in the PRO; and

--was a failure!

It is only noteworthy in passing, to refer to the correspondence between the manager of the Colonial Bank in Berbice and his superintendent, the manager in Demerary. {170} It manifests their awareness of such opportunities. This letter is dated July 22, 1848--nearly ten years after the Queen's Proclamation. It also reaches the conclusion that the bank stood to lose more in terms of goodwill than it may have earned in profits, from being seen to have manipulated the market for gain. It is significant because the letter describes the operations of market manipulation--implying that the bank knew these opportunities.

In order to understand the particular opportunity, discussed in this letter, it is first necessary to look at the circulation of small coins in the colonial economy.

> "The small coin paid to the Labourer, is collected by the Huckster, and small retail Dealer for articles sold by them, by these it is paid away to the merchants for the goods purchased wholesale, and from the latter it finds its way in ordinary course to the Bank, from whence the Planter again procures his supply." [171]

The British fractional parts of the dollar--such as the four penny piece--were a convenient coin for the planter to pay wages and, therefore, always in demand from the banks. The banks, in turn, received their supply from the merchants, who included these small coins as payment for their dollar imports. In Berbice, the Queen's Proclamation of 1838 had not succeeded in altering the rates set by demand and supply--nobody, it is reported, "... paid any attention to the Ordinances...." {170} According to the proclamation, the British coins were supposed to be exchanged at $4^s/2^d$ to the dollar. Yet, the four penny piece continued to circulate among the labourers-hucksters-merchants and shopkeepers at 1/12th of the dollar, or $4^s$ to the $. Because of the demand for these coins, the banks also adhered to this rate. It would have been foolish for the banks to pay $4^s/2^d$ per dollar to the planters. This would merely have afforded them a premium in their payment of wages. The planters would have received the pieces at $4^s/2^d$ and would have only paid $4^s$ as wages, accruing an unearned profit of $2^d$ per dollar or 4% [i.e.,

$4^s/2^d$ = 50 pence and 2/50 = 0.04] The opportunity, for the banks, lay in the exchange of these coins for dollars. It is clear from the Berbice manager's letter that he understood how the bank, if it imported large amounts of such coins, could easily sell them to the planters for dollars at $4^s$. A large sum of silver dollars would then collect in the coffers of the bank. This would then place the bank in a stronger bargaining position vis-a-vis the merchants and storekeepers who could be charged the higher rate of $4^s/2^d$, for their demand for dollars to pay for imports.

## (d) COLONIAL MONEY

Although the Queen's Proclamation was not issued until Sept. 1838 and could not possibly have been an incentive for colonial banking, in 1836, the opportunities it gave rise to could well have been anticipated. The delineation of what constituted legal tender made imperative what had perhaps been known but put off--the redemption of the colonial currency. In so far as it was clear, in 1836, that sooner or later the money issued under the authority of the local govenments would have to be redeemed, an opportunity to make money out of it may well have been anticipated. Where the colonial currency consisted of 'Island Cheques' or 'Colonial Notes', the banks could treat them--as will be seen later--as any other bill bought, payable in London. Where the colonial currency was minted and possessed an intrinsic value then the banks could realize a profit by

withdrawing, melting and reselling them as bullion. An example of this latter opportunity can be found in the attempt by the Colonial Bank to redeem the 'cut-money' of St.Lucia, recorded in the PRO.

The shortage of small change in the colonies had led to extreme measures ranging from the issue of tokens, by the merchants, to the clipping of coins and even their outright mutilation. In St.Lucia, the colonists had cut English silver coins into fractional pieces known as 'cut-money' or 'moco-pieces'. 'Cut-money' had been circulating in the colony before the Queen's Proclamation and, in fact, despite its no longer being a legal tender, "... appears to have been retained in circulation in consequence of a Notice promulgated by certain of the Planters and other Inhabitants on the 30th June 1841, without any sanction from Her M$^{ys}$. [sic] Government ...". [172] The illegality of this notice was clear to both the colonial as well as home governments. A report written by J.G. Porter Atthill, the attorney-general of St. Lucia, to the colonial secretary, J.V. Drysdale, in 1841, gave the background history of these pieces and unequivocably declared them to be illegal. {173} Although not a legal tender, the 'moco-pieces' had an intrinsic value, as they had been minted in silver. This presented an opportunity to withdraw these coins, melt them down and resell them as bullion. Once again the negotiations by the Colonial Bank, who sought to maximize its profits by applying for a subsidy from HMG to withdraw the coins, is lengthy, well documented in the PRO, and

failed. Here it is only worth noting the opportunity as perceïved by the Colonial Bank and its actual rate of return in the sales.

The Lt. governor of St.Lucia, C.H. Darling, had reported the interest of the Colonial Bank to withdraw the pieces, in a despatch to the governor-general in Barbados, on Sept. 14, 1849. The withdrawal, the Lt. Governor reported, would cost the Colonial Bank £100 out-of-pocket which the bank had querried whether HMG might not subsidize. The calculations estimated by the bank in its <u>publicly</u> stated offer to help withdraw the pieces were : [174]

| | | |
|---|---|---|
| Price of Standard Silver<br>Sept. 1st 1849: $4^{S}/11^{5/8}$ per oz = | pence | 59.625 |
| The Cut-Money is 3 per Cent<br>less than Standard Silver | | <u>1.788</u> |
| Value of Cut-Money per oz. | pence | 57.837 |
| £100 of Cut-Money weighed gave<br>413 oz @ 57.837 = £99„10„6 | | |
| Given there are £4000 in circulation<br>the value, is | | £3980 |
| Deduct 2 per Cent Freight & Insurance | | <u>80</u><br>£3900 |
| Probable Loss from Withdrawal | | <u>100</u> |
| Par Value/Cost | | £4000 |

Despite being refused the £100 subsidy, the Colonial Bank still found it profitable to withdraw the 'cut-money' and exploit its intrinsic value as bullion. The London <u>Times</u> of Monday, June 9, 1851, reported in its 'West India and Mexican

Mails' column that:

> " The St.Lucia Palladium, of April 25, gives a very gloomy description of the condition of the Colony.... A large sum of money in British had been received in the island to replace cut-money withdrawn from circulation by the Colonial Bank." [175]

Exactly how the bank arranged to do so on its own is, unfortunately, not discernable without access to the letterbooks of the St.Lucia branch, which are not in London. A revealing entry, however, exists in the court minutes of March 1851. Six boxes of 'cut-money' from St.Lucia are reported to have been sold on March 4, 1851 for a net sum of £3017„15„10 [176] and two more boxes on March 25, 1851 for a net sum of £1204„18„9. [177] Assuming that these were the whole amounts of 'cut-money' that had been withdrawn, it is clear that the Colonial Bank made a profit from exploiting this opportunity:

| | | |
|---|---|---|
| Total Cut-Money in Circulation | | £4000„--„-- |
| Sales of the Withdrawn Cut-Money net of freight and insurance | | 4222„14„ 7 |
| Profit to the Colonial Bank | | £ 222„14„ 7 |
| Margin : more than | 5% | |

## (3) THREATS AND CURRENCY REFORM

### (a) INCREASE IN LIABILITIES

The variety of money and the shortage of specie both posed a threat to the colonial banker. The variety of money was not as serious, however, so long as a bank could pay liabilities

in the currency it was wont to receive. A bank would have been indifferent to receiving or holding clipped coins as reserves (including silver dollars) if it were reasonably sure that these coins would be accepted by others for at least an equivalent value received. It became a serious threat when restrictions, such as that of legal tender and/or the provisions of a charter, were involved. HMG in granting a charter to the Colonial Bank, in 1836, had required it to pay its notes "... in Dollars of acknowledged weight and fineness..." [178] while unable and unwilling to impose such a discipline on the debtors of the bank. This permitted speculation against the bank by its competitors and the general public. The shortage of money, on the other hand, threatened everyone. It made the holding of large idle reserves of specie necessary and deprived the banks of the profits from such investment. The liabilities of the bank, upon which ultimately its credit and its solvency depended, were the most affected by this threat. Among the liabilities, furthermore, the circulation of notes was the major operation drastically curtailed by this need to maintain large reserves. But it was by no means the only one. In defence of his having kept even larger reserves than the amount of his note circulation, the manager of Demerary wrote to the court of directors, in London, on Sept. 12, 1838, saying:

> " With reference to the opinion entertained by the Directors that in ordinary times I keep a larger stock of Dollars than is warranted by the amount of Notes in circulation, and that there can be no advantage derived from a circulation, which is backed by a stock of Dollars larger

than that circulation.- I would entirely concur in this opinion were the amount of circulation the only liability to which I had to look... but such is not the case.... I shall now state a few of the liabilities to which I refer, which partly arise from the different circumstances which influence money transactions here and at home-. In the first place there are the current accounts.... Secondly-there are the Cash Credit accounts-.... Thirdly-there are the Deposits at Interest.... Fourthly-there are... Local Bills offered for Discount....

[Fiftly] ... InterColonial transactions... taking then these principles as correct I will exemplify them by two Week's balances-namely the one ending 19 May and the Week ending the 8 September-....

At that day [i.e., May 19, 1838] the estimated amount of Notes in circulation was--$55000, being about 5000 more than what I consider our safe circulation-so that there ought to be on hand for this liability Cash $25,000.-

| | | |
|---|---|---|
| the Current a/cs [sic] were | $82600 | |
| estimated minimum | 54000 | 28,600.- |
| the Cash Credits were | 97200 | |
| estimated minimum | 123000 | 25,800.- |
| Deposits at Interest | | 5,000.- |
| Funds for discounts, disct[g].[sic] being likely to increase | | 40,000.- |
| Doubloons for InterColonial Orders | | 4,000.- |
| | | 128,000.- |
| Cash on hand only | | 110,000.- |
| The estimated amt [sic] of Notes in circulation on the 8 September was only 45000 so that the amount of dollars [sic] required for this would not exceed | | 20,000.- |
| The Current a/c were | 82700 | |
| estimated minimum | 54000 | 28,700.- |
| The Cash Credits were | 115,600 | |
| estimated minimum | 128,000 | 12,400.- |
| Estimated amt required for Dep[t]. at Int[t]. [sic] | | 5,000.- |

| | |
|---|---|
| Doubloons to meet orders pay[ble]. [sic] in that coin | 4,000.- |
| | 70,100.- |
| Cash on hand 8 Sept[r]. [sic] | 50,230.- |

....

> Looking at all these different liabilities and considering the sudden and unforseen demands for money which often arise in this Colony dependent as its produce Market is on intelligence from the Mother Country- I do not think that the Credit of the Bank can be maintained, with a smaller balance than $70,000. [This figure was wrongly copied by the clerk! Peter Rose meant £70,000.- sterling--see later discussions about the capital needed by branches] and at the same time I do not think it ought to exceed $100 to $110,000- [also meaning £ sterling]." [179]

Such idle capital bore an opportunity cost to the shareholders--it could be placed with borrowers in England--that made any profits earned in the colonies that much less attractive. A stable and reliable currency was, therefore, an essential prerequisite to investment in the West Indies. The chairman of the Colonial Bank made no secret of this at the general meeting of the proprietors. At the end of their first meeting, on Jan. 25, 1838, the chairman said:

> " The Directors cannot conclude their Report without adverting to the difficulties they have had to contend with in the commencement of their operations arising from the very defective and unsound state of the Currency in the West Indies generally and the imperfect state of the Law relating to Legal tender for Debt." [180]

When their hopes of an early reform--discussed later on in this section--to the colonial currency were not realized by the second meeting (July 26, 1838), the directors had already decided to restrain and curtail their operations:

> " In their former Report, the Directors alluded to the difficulties they had to contend with, in consequence of the defective and unsound state of the Currency in the West Indies; and expressed a hope, that ere long these difficulties would be removed, by its settlement upon a sound and uniform basis.
>
> In this expectation they have been thus far disappointed, and they have consequently deemed it prudent to continue their instructions to their Managers to proceed with the utmost caution in the issue of Notes and in the general conduct of their business. This will account for the limited amount of their circulation, as shown by the foregoing statement." [181]

The statement, alluded to above, was a balance sheet given in the directors' report. Table 8 gives the relevant details from these balance sheets attached to the directors' reports from Dec. 31, 1837--Dec. 31, 1840. It is clear that on Dec. 31, 1837 the directors had specie covering 69% of their total liabilities. The chairman referred to this as proof of their precautionary response to the threats posed by the state of the colonial currency. Such a statement, however, is slightly misleading. The accounts, alluded to, pertained to a half-year preceding the note of caution expressed at the general meeting. The accounts pertain to the half-year ending Dec. 31, 1837. The chairman's note of caution was expressed on July 26, 1838. Furthermore, in that same statement the chairman admitted that at the previous general meeting (Jan. 25, 1838) there had been optimism for achieving currency reform. This is borne out by Table 8. The accounts for June 30, 1838 show that the circulation was more than tripled while the specie cover was reduced by more than a half. The more precise impact of the directors' instructions to

Table 8
SPECIE / (CIRCULATION OF NOTES + OTHER LIABILITIES)
COLONIAL BANK
DEC. 31, 1837--DEC. 31, 1840
NEAREST £ STERLING

| Ref: [182] | Period Ending | Notes Circulation | Other Liabilities | Total | Specie | % |
|---|---|---|---|---|---|---|
| 1 | Dec.31/1837 | 24,722 | 455,474 | 480,196 | 330,894 | 69 |
| | | (+60,931) | (+95,159) | | (-141,779) | |
| 2 | Jun.30/1838 | 85,653 | 550,633 | 636,286 | 189,115 | 30 |
| | | (-29,942) | (+225,914) | | (- 15,731) | |
| 3 | Dec.31/ " | 55,711 | 776,547 | 832,258 | 173,384 | 21 |
| | | (+59,440) | (+59,366) | | (+ 62,356) | |
| 4 | Jun.30/1839 | 115,151 | 835,913 | 951,064 | 235,740 | 25 |
| | | (+12,138) | (+388,133) | | (+ 10,368) | |
| 5 | Dec.31/ " | 127,289 | 1,224,046 | 1,351,335 | 246,108 | 18 |
| | | (+38,676) | (-49,048) | | (- 21,282) | |
| 6 | Jun.30/1840 | 165,965 | 1,174,998 | 1,340,963 | 224,826 | 17 |
| | | (+30,524) | (+39,636) | | (+120,246) | |
| 7 | Dec.31/ " | 196,489 | 1,214,634 | 1,411,123 | 345,072 | 24 |

branches must be sought in the accounts for the following half-year--i.e., Dec. 31, 1838. Circulation had, indeed, fallen. But other liabilities had increased. Even more significantly, the specie cover was reduced! Part of the explanation for this is no doubt to be found in the Queen's Proclamation, in September, and the consequent supplementary charter, granted the Colonial Bank, on Oct. 30, releasing it from the obligation to pay its notes only in silver dollars. At the Jan. 2, 1839 general meeting, the directors reported that the supplementary charter was sent to the branches by the 'Packet' of Nov. 1. [183]

The need for a much smaller specie cover reduced the capital requirements of branches. This, in turn, reduced the exposure of the shareholders and was presented to them as the directors' prudent and cautious conduct of the business. A closer look at the accounts of the bank, however, do not show a net repatriation of the bank's capital back to England. The advise of drafts sold by the branches and bills (bought and, therefore, assumed to have been) remitted to London between Nov. 1838--Feb. 1839, summarized in table 9, shows an underlying net outflow of capital to the colonies. The entry for the week ending Feb. 19, 1839, is one of the exceptions. It shows a large remittance of almost £40,000, or more than $180,000. Although, it is not possible to identify, from the archives, the source of the individual remittances, an interesting match, of dates and the alleged excessive specie accummulated by the Demerary branch, suggests itself. In his response to the superintendent's

questionnaire of Dec. 12, 1847 (outlined in Diagram 4 below), asking about the capital requirements of the branch, Peter Rose reaffirmed his intention of "... remitting on the 12th Jan$^{y}$.[sic] $100,000 to Parent Bank of the Dollars now in Treasury". [184] Given the postal time-lag, the increase in the remittances during the week ending Feb. 19, could very well have come from Demerary. More details of this are best relegated to the discussion of capital requirements, later. Nonetheless, the significant underlying trend is quite clear from Table 9. Though there may have been a contraction, in one branch, it was re-allocated to another. A net repatriation of the bank's capital from the colonies does not appear to have occurred. While the precautionary and prudent response of the directors to currency threats may have well been there, it was not serious enough--strategically--to reverse an underlying expansion of operations. Perhaps this is a measure of the degree to which the directors took the state of the colonial currency as a real threat.

So far the argument has centered around the general threat posed to liabilities. The response of the Colonial Bank has been seen as an indication of how serious it regarded such a threat to its objectives. No mention has been yet made about the exact nature of the threat to the particular liabilities. This can be done by grouping the various liabilities mentioned, earlier, by the manager of Demerary, into three groups: (i) bills and intercolonial orders, (ii) deposit accounts, and (iii) bank notes.

TABLE 9
DRAFTS ADVISED & REMITTANCES RECEIVED
AT LONDON BY THE COLONIAL BANK
NOV. 1838--FEB. 1839
STERLING

| Ref: [185] | Week Ending | Drafts Advised | Remittances Recd | Net |
|---|---|---|---|---|
| 1 | Nov. 6, 1838 | 33,568„ 7„10 | 17,252„ 7„ 4 | O |
| 2 | " 13, " | 0 | 794„17„-- | R |
| 3 | " 20, " | 0 | 0 | - |
| 4 | " 27, " | 57,535„ 9„ 3 | 50,020„16„ 2 | O |
| 5 | Dec. 4, " | 12,479„ 2„ 9 | 6,047„11„ 5 | O |
| 6 | " 11, " | 67,477„ 2„ 3 | 34,782„ 8„ 8 | O |
| 7 | " 18, " | 0 | 6,611„15„ 2 | R |
| 8 | " 28, " | 17,424„12„ 6 | 21,609„16„ 3 | R |
| 9 | Jan. 1, 1839 | 3,008„ 6„ 6 | 255„--„-- | O |
| 10 | " 8, " | 63,836„15„ 6 | 23,103„19„ 6 | O |
| 11 | " 15, " | 24,532„ 1„ 6 | 6,466„--„-- | O |
| 12 | " 22, " | 10,956„18„ 7 | 18,442„12„ 6 | R |
| 13 | " 29, " | 7,881„ 9„ 2 | 9,262„12„ 9 | R |
| 14 | Feb. 5, " | 62,197„ 1„10 | 33,851„ 5„ 7 | O |
| 15 | " 12, " | 10,780„ 1„ 2 | 4,050„--„-- | O |
| 16 | " 19, " | 25,811„13„ 6 | 62,644„ 6„ 3 | R |
| 17 | " 28, " | 31,192„ 2„ 7 | 21,707„ 2„ 4 | O |
| | Total | 428,676 | 316,895 | |

O= Net Outflow
R= Net Repatriation

## (i) BILLS AND INTERCOLONIAL ORDERS

It is quite easy to imagine the nature of the threat the shortage of specie must have caused the operations of bill purchasing and payments for the intercolonial orders received from other branches. The lack of specie meant having to forego the potentially profitable opportunities to buy bills sold on London, just when the exchange rate was favourable. The manager in Demerary, in his own defence, argued that it was not practical to use the receipts of specie from local bills receivable in order to finance the purchase of sterling bills.

> "There are irregularities in the amount of Local Bills offered for Discount and also in the amount of Local Bills falling due in any one Week or other limited space of time.... It is impossible at all times to refuse good paper- It may be offered by Customers who have all along given a preference to the Colonial Bank." [186]

A credible banker could not very well admit to the lack of means to buy bills and consequently always had to keep such means available to accommodate regular and perfectly sound customers--particularly if it wanted to retain them as long-term customers. The shortage of specie made this more difficult and more expensive. Neither could a branch ignore the liabilities established for it by sister branches. As it has been demonstrated earlier, there was a profit to be made from denominating intercolonial orders in, for example, doubloons. But by doing so, the bank had to ensure that branches were sufficiently stocked with doubloons. Otherwise the credit

standing of the bank would once again be threatened. It appears that, in Demerary, the amount needed to satisfy such orders, in 1838, were not exorbitantly large:

> " With regard to InterColonial transactions I do not consider... them as... being... of any great magnitude... I consider the only cash required to be on hand for this Branch of business is a small quantity of Doubloons say $4000.-" [186]

## (ii) DEPOSIT ACCOUNTS & CASH CREDITS

Deposit accounts and the circulation of notes were liabilities that served as a source of capital or financing for the other profitable operations of a bank. The practice of depositing funds, with goldsmiths, private individuals, and bankers, for safekeeping had been widespread in Europe. The development of a moneyed economy, in the colonies, brought with it the demand for such depositories. The goldsmiths and private bankers often gave no interest and even charged a fee, while whenever possible, using the funds deposited with them to earn a further profit. The proponents of the Scottish system of banking, on the other hand, with an eye to this profitable leveraqe, gave interest in order to attract deposits. A number of colonial institutions had been formed to provide a depository for the public. In 1836, the local legislature of British Guiana, for example, resolved by its Ordinance No. 71, to establish a savings bank in Georgetown, Demerary and New Amsterdam, Berbice. The projected bank was to begin its

operations on April 1, 1837 and was to be managed by the colonial receiver general's office. It was authorized to take small deposits, from 6 guilders (the records of the Colonial Bank in Berbice showed 3 guilders = $1 [187]) of local currency and to pay interest at 5% per annum for sums greater than 1 Joe (1 Joe = 22 guilders = $7.33 [188]). Each depositor was only allowed 600 guilders for the first year and 300 guilders, up to a maximum of 6,000 guilders, in any subsequent year. Withdrawals were subject to a 24 hours advance notice. [189]

In addition to such savings banks, money lenders, private merchants, and unincorporated bankers also accepted deposits. The Jamaica Bank, for example, accepted unlimited deposits at 3% p.a. for call money and 4% compounded half-yearly for two year time deposits with three months notice. [190] The British Guiana Bank advertised in the Royal Gazette of British Guiana that it gave 3% on the credit balance of current accounts and 3.5% on deposit receipts with one month notice. The bank was responding to what it perceived to be both a public demand for deposit accounts and their utility as a source of financing. In their report to shareholders, the directors of the British Guiana Bank, on July 24, 1837, pointed out that:

> " The Directors do not at present forsee, that any necessity will arise, of making another call on the Shareholders during the year; so long, indeed, as the deposit of money continues to flow into the Bank to the extent which is anticipated, the Directors will consider it more for the interest of the Establishment, not to seek elsewhere for further capital to carry on its operations." [191]

In their memorial to the governor of British Guiana to expedite the grant of a Royal charter, the directors of the British Guiana bank portrayed the demand for deposit accounts as a justification. This was even more so because: "... the Colonial Bank... seeks not for deposits on Interest, nor allows as liberal a rate as the Local Bank." [192]

The Colonial Bank regarded deposits as a minor objective. This is evident from the lack of specific reference to deposits in the charter of 1836. The contemporary colonial media were surprised at this omission:

> "It appears rather extraordinary that no mention should be made of Banking deposits--an item which forms a considerable part of the available means of a Bank in high credit. We cannot suppose that the Colonial Bank Directors intend to refuse such deposits, and therefore presume that the omission is to be attributed to an oversight." [193]

It was not an oversight. It was a deliberate strategic choice. The Colonial Bank was averse to taking on the risks of financing its operations by increased liabilities. The Colonial Bank had successfully raised, in 1836, an unprecedented capital of £2 million sterling, of which nearly a quarter had been paid-up before the commencement of business. There was, the general superintendent of branches argued in a reply to the manager in Demerary, already sufficient working capital in the hands of the bank and more could be called, if needed. Deposits could be ignored, for a long-time, as a source of capital. The manager in Demerary reported this in a letter to the directors in London:

> "... we were under the impression that... the Directors were willing... to use the Capital of the Bank than to receive deposits, in which opinion we were confirmed by Mr. McChlery's [the superintendent] answer to a letter of ours... 'so much the better, the Bank does not require money'." [194]

The superintendent and the directors of the Colonial Bank were anxious about the risks of employing money, deposited with the bank on call or short notice, in investments that required a fixed time period before any dividends could be earned--such as the usuance of a sixty or ninety-day bill of exchange. In a letter to the manager in Demerary, the directors explained their fears:

> "The Directors... are unable to conceive how such Deposits can be made use of so as to meet the Interest paid upon them--the Directors will be glad to hear from you how you propose employing deposits made for short and uncertain periods of time, and if you can shew [sic] any more by which profit can be derived from them...." [195]

Should enough depositors, coincidently, have withdrawn their money before the investments of the bank had matured, the bank would have been faced with an illiquidity crisis. Depositors would have been most likely to do so in times of general economic hardship, when the investments of the bank (i.e., the use of the deposits) would have been most irretrievable and at risk. Having a large number of unsecured deposits on call would have compounded any crisis for the bank.

Branches were, however, permitted by the instruction book, issued to officers, to open:

--deposits without interest,

--deposits at interest,

--current deposit accounts, and

--cash credits.

## --DEPOSITS WITHOUT INTEREST

Deposits without interest were well known among the European goldsmiths and private bankers with whom the public lodged their bullion or specie mainly for safekeeping. If the amount lodged was small or more of a burden than an advantage, these bankers even charged a fee. They succeeded in attracting depositors, at these conditions, primarily because they did not accept deposits of the second type--at interest. The early chronicler or the Colonial Bank, G.R. Young, explained that:

> " Up to this time the same principles which have obtained in the London banks as regards deposits, have been observed in the colonies. No interest has ever been allowed upon them. Repeated applications have been pressed... to introduce the Scotch System of banking, and to compel the payment of a certain rate of interest upon deposits; ...but ...the directors of the local banks admit that they did not pay interest upon deposits, because they had found in the past they could escape from it." [196]

Furthermore, non-interest bearing deposits were payable on demand. This reduced its attraction even further.

## --DEPOSITS AT INTEREST

Deposits at interest suited the customer who simply had a sum to be left with the bank and did not require numerous

debits nor credits posted to it. Often, such an account could simply be represented by a deposit receipt. The manager in Antigua gave the background to one such deposit receipt, in order to obtain permission from the superintendent to remit the interest accrued to the customer who was resident in another island.

> "A sum of $3021.48 has been deposited with this Branch by the Trustees of a Minor in the Island of ; we have given a Deposit Receipt for this money; but as the Parties reside at , and are directed by the Will of the Testator to deposit the Money in the Bank here until the infant becomes of age, (a period of more than 20 years) drawing the Interest Annually, it will be desirable that you authorise us to pay the Interest to the order of the Trustees so as to save them the trouble of coming here every year to receive the Principle and Interest, and redeposit the Principle as directed in our Instructions." [197]

The deposit receipt was also convenient for the colonial treasurers and registrars--see later discussions in Chapter IV--who had idle cash balances, besides and/or beyond their expenditure, which they could deposit at the bank for an interest payable to them.

The rate of interest allowed by the Colonial Bank reflected their lack of interest in competing for deposits. The court of directors, in conjunction with the superintendent in Barbados, had set the rate at:

2% for 3 months

2.5% for 6 months

3% for periods in excess of 6 months

The implication of such rates was clear to the agents in Berbice:

> "The instructions in your letter of the 26th ulto. [i.e., Sept. 26, 1837] No. 33 respecting the rate of interest to be allowed on Deposits shall have our attention, [sic] at the low rate of interest for 12 months which the Directors have determined on, we need not expect deposits to any extent." [198]

A further indication of the anxiety of the directors can be seen in their insistence that all large sums offered for deposit must first have been approved by London. The manager in Demerary affirmed, in a letter to the directors on Dec. 12, 1837, that this rule effectively barred the branch from receiving any large deposits:

> "I observe that the Directors expect when large sums are to be deposited that reference should be made to them--I think on reconsidering the matter they will see that in following up their views it will put a stop to any large deposits being made in the Bank--is it reasonable to expect that parties having large sums to deposit will wait three months for an answer?" [199]

## --CURRENT DEPOSIT ACCOUNTS

Current deposit accounts were ideally suited to those customers who wanted their money lodged at the bank, preferably earning some kind of interest, but allowing them the freedom to draw cheques and make deposits to the account, from time to time. The manager in Antigua explained the advantage of a current deposit account, in a letter to a potential customer:

> " I think you will find it a great convenience to keep a Current Deposit Account with the Bank (as most of the Principal Merchants, here do, [sic]) this Account we keep

> free of charge in consideration of the Parties always maintaining it in credit--should you be desirous of having such an Account with us I shall send you a Cheque Book and you draw as you may have occassion, and pay in money on Bills as may suit your convenience." [200]

It is interesting to see that the manager has not referred to the charges on the debit balances of such accounts. The conservative strategy of the directors can once again be discerned from the superintendent's reference to the charges set by the manager in Demerary.

> "'Current Deposit Accounts
> The Directors consider the charge of 1/8 percent on the debit side of these accounts as very low.- but you are left to act in this matter as you find yourself compelled by competition.'" [201]

The flexibility of the directors, in this respect, is not at variance with their precautionary attitude towards liabilities. The debit balance of a current deposit account was not, strictly, a liability but an asset (receivable) of the bank! It represented lending by the bank and, therefore, required taking risks, in the face of competition. Once again, it is clear that the directors were prepared to incur risks in normal banking operations but were hesitant to chance any risks of large liabilities.

## --CASH CREDITS

Cash credits were another receivable for which the manager in Demerary had to set aside reserves. This was due to the contractual arrangements which made-up the cash credits.

These accounts were a revolving facility that a customer could borrow against when necessary. The facility was given against a bond or surety undertaken by the customer. This bond made it different from a simple unsecured overdraft facility while it saved the customer from repeatedly selling bills to the bank to meet his fixed obligations. Cash credits were hailed by the early chronicler, G.R. Young, as the cure for the intertwined financial guarantees of the colonists, exposing them to a domino effect should one of them fail.

> " But one of the most acceptable features of the [Scottish] system, upon which Colonists look... is the Cash Accounts, or cash credits... which the directors have pledged themselves to introduce. ...To a great body of the Colonists, and especially to that portion who have emigrated from Scotland, the system has been long familiar....
>
> In the latter [i.e.,the Colonies], the only way in which Capital, up to this time, could be derived from the local banks was by an application for discounts... endorsed by two or more of his [i.e., the borrowers] friends.... In its very inception it was thus made a matter of delicacy and embarrassment. It compelled him to disclose his plans to others. It involved the fortune of every man too deeply in the general circumstances of the community." [202]

Because it afforded both a commission (0.5%) and an interest (6%) on the loan {203}, cash credits appeared to be a profitable operation to the bank. The actual state of affairs will be discussed, at length, elsewhere. On the other hand, it was popular with the planters and merchants because it gave them a revolving credit facility that they could always rely upon. It was this obligation, to provide specie for cash credits, upon demand, that needed reserves to be set aside for them. Like the

deposit accounts, on call, the branches could not anticipate when they might be asked to provide specie for these accounts. The manager, at Demerary, explained his dilemma to the directors by pointing out that:

> "The total amount of Bonds is $146200.- and altho' [sic] it is not at all likely that the various accounts will at one time draw to the full extent I do not think we can estimate the maximum for which I ought to be prepared at less than 7/8th of the whole amount or $128000--It is clear then that I ought to have in Cash on account of this liability a sum equal to the difference between the assumed maximum and the actual cash credit accounts." [204]

### (iii) NOTE CIRCULATION

The circulation of bank notes was an unrivalled source of financing, being virtually at no cost to the issuer. The Colonial Bank paid only $53^{s}/6^{d}$ per thousand, $14^{s}/6^{d}$ of which constituted the engravers' profit, "... 38/ per thousand being the actual cost of paper printing and numbering exclusive of profit". {205} These notes could, then, be invested to earn a profit like the other capital of the bank. The ability of the issuer to expand its circulation was a function of the demand for notes and the credit standing of the issuer, in the eyes of the public. Such opportunities had been well known to the earliest bankers in Europe. Numerous failures of note issuing bankers, however, had reduced the public readiness to accept notes, increased the awareness of the risks to issuers, and brought government controls over their issuance.

Given the objective to maximize profits, a near zero cost of financing appeared too good a strategy to overlook. This can be explained by the use of Diagram 3, below. Assume that the specie available to a banker (or branch) was a limited amount, S. This capital could be invested at a rate of return, from the banker's operations, r. This capital was not free of cost. If it was raised by deposits, borrowings, or even shareholders equity, there was (or can be imputed) a cost of financing, i. Assuming linearity in the cost and revenue functions, the cost, C, and income, Y, can be defined simply as:

$$C = S(i)$$

$$Y = S(r)$$

By issuing an N amount of notes, the bank was--in order to be able to prove their credit worthiness--obliged to retain some of this specie, S/N, as reserves for notes returned for redemption. The bank either will have determined--from first-hand experience or vicariously--the minimum amount it could keep on hand. The balance, therefore, which was available for investment, in conjunction with the notes, would have been a percentage, P, of the specie available:

$$P = 1-S/N$$

The bank's revenue, Y, was a function of the amount of specie it had free, i.e., PS, plus the amount of notes issued, i.e., N:

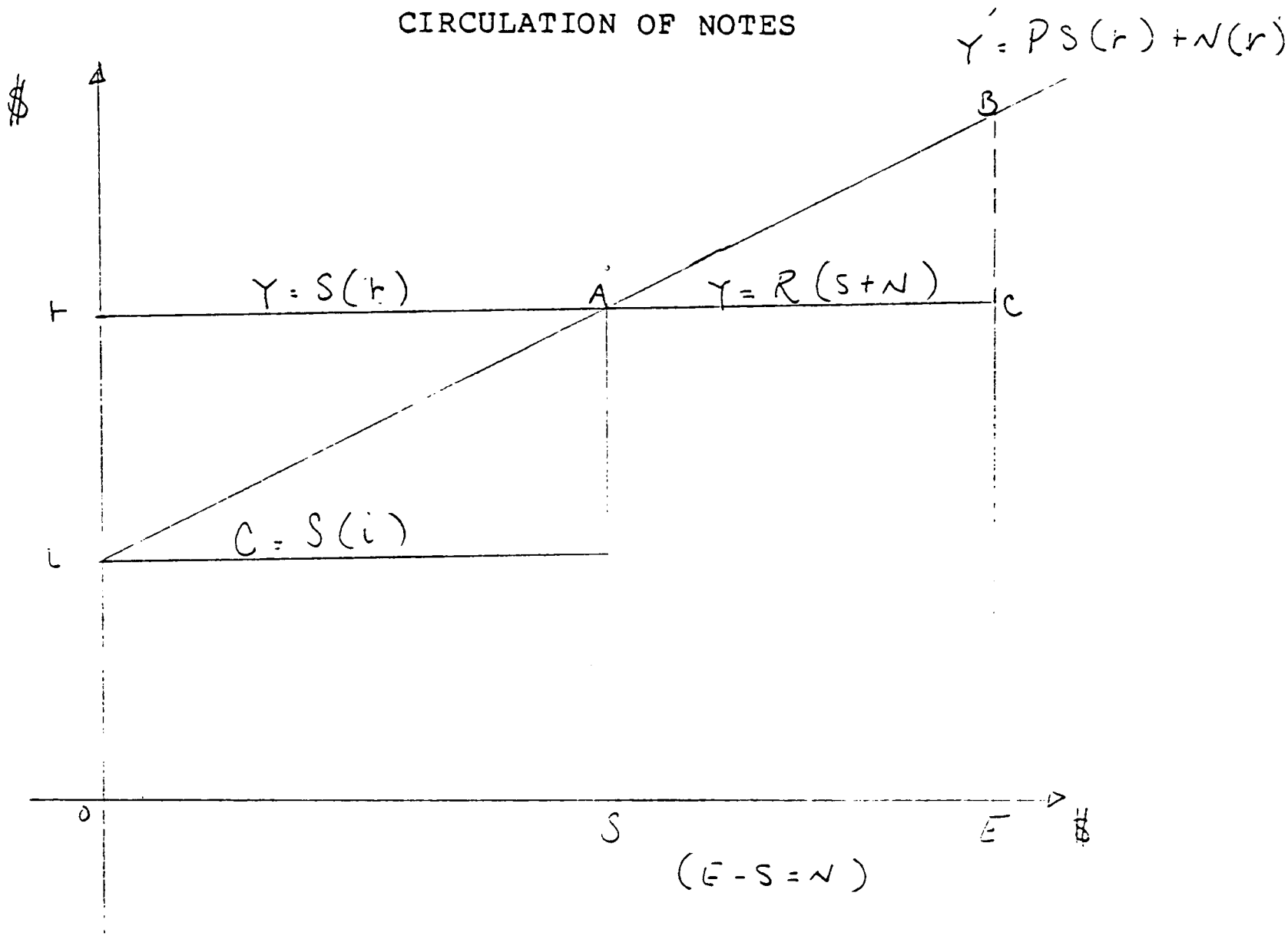
$$Y = PS(r) + N(r)$$

The income generated with the available capital, S, is the simple difference between the areas rs and is. Assume the total demand

for capital is E. The bank has only S means. It, therefore, issued notes to the amount of N. Assume that no costs are attributable to the issuance of notes. If it also maintained no reserves the area rE less iS would be its net revenue. The need,

DIAGRAM 3

CIRCULATION OF NOTES




however, to maintain reserves which are unproductive reduce Y to the area underneath iBE less iS. So long as the area ABC is larger than irA, the issuance of notes becomes a very profitable strategy. The area irA is a function of the spread, r-i, while the area ABC is a function of the demand for notes. In other words, the smaller the spread in the cost of financing and the

rate of return from specie and the greater the absorbative capacity for notes the greater the incentive for the bank to issue notes. Circulating notes was then a relatively more inexpensive source of financing compared to deposits, etc. Contemporaries of the Colonial Bank were fully cognizant of this implication. The Royal Gazette of British Guiana of Saturday, Oct. 1, 1836, predicted:

> "... that by excercising the power of issuing bank notes to an unlimited extent, the Colonial Bank has no occasion to employ the money of depositors.... so long as they can issue their bank notes at no further cost than the paper and engraving, they have no inducement to give even one per Cent. interest for money deposited in their hands...." [206]

The Colonial Bank was undoubtedly aware of these opportunities. It must also have recognized the constraints and risks to circulating a large amount of notes, which represented a liability of the bank. This can be seen from the bank's first questionnaire issued by the superintendent, on Dec. 13, 1837. The first three questions were designed to gauge the capital needs of the branches and the absorbative capacity for notes. The letterbooks of Berbice and Antigua contain both the questions and the managers' responses. These are outlined in Diagram 4. The response of the agents in Berbice to question 2 shows their awareness of the opportunity to use note circulation as a means of financing other operations, such as their exchange business. The response to question 7 indicates a larger absorbative capacity that includeds the labourers, who appear to have

DIAGRAM 4
RESPONSES TO THE 1st QUESTIONNAIRE
ISSUED TO MANAGERS OF THE COLONIAL BANK
CONCERNING THEIR CAPITAL NEEDS AND NOTE CIRCULATION
DEC. 13, 1837

Question No.

1 THE PROBABLE MEANS YOU MAY REQUIRE FOR CARRYING ON THE BUSINESS OF THE BANK DURING THE NEXT 3 MONTHS WITH PARTICULARS OF THE COINS AND NOTES.

ANTIGUA [210]

I expect the receipt of this Branch for Local Bills, Cash Credits, Sales of Drafts on Court of Directors etc will be fully equal to supply our wants for the ensuing three months and leave a surplus.

BERBICE [211]

It is impossible to say exactly what means may be required but we presume the last three Months of the year may be taken as a criterion for the next three months. Colonial Paper and Bank Notes seem to be preferred for the General Purposes of Business. Dollars not being liked on account of their Bulk and weight. We only require a sufficient number of Dollars on hand to take up the Notes of the Bank when called on to do so which seldom is the case except by the British Guiana B [sic] that establishment take our Notes in payment but do not issue them again to their customers. On Saturday they invariably bring what may have been received during the Week to be exchanged for their own (or rather the Notes issued by the Directors on their private responsibility) or Dollars.- A small Silver Currency is wanted and would be useful in assisting the operations of the Bank.

DEMERARY [212]

The most advantageous way of carrying on the business of the Bank will be to draw for such sums as may be required--remitting on the 12th January $100,000 to Parent Bank of the Dollars now in

Treasury. A supply of Notes may be sent and will be issued only as circumstances may warrant.

Question No.

2 THE PROBABLE EXTENT OF CIRCULATION OF THE NOTES AND THE AMOUNT OF DOLLARS TO BACK IT?

ANTIGUA

I hope to be able to put the amount of Notes at present in the Treasury $9,530 into circulation in the course of the ensuing Three Months. The amount of Silver dollars now on hand is $6650.75

BERBICE

As stated above the transaction of the Bank might be carried on principally in Notes, they being preferred to Dollars. The best idea that can be given of the probable extent of circulation would be a reference to the past transactions of the Branch. We should think 1/3 the amount of Notes in circulation would be sufficient to keep in Dollars for the purpose of making exchanges.

DEMERARY

So long as the Exchange ranges so high it would be dangerous to extend the circulation of our Notes in this Colony much beyond the present amount say about $55000 here and Berbice.

Question No.

3 HOW THE NOTES ARE RECEIVED AT PUBLIC OFFICES AND GENERALLY.

ANTIGUA

Freely except at the Customs House.

DIAGRAM 4
CONTD

BERBICE

The Notes are not taken at all at any of the Government Public Offices here which is a great annoyance to the Public and for which no satisfactory reason can be given as the Notes being payable in Dollars are decided [sic] preferable to the Berbice Paper Money which cannot be cashed by the Government Offices and for which there is no security. It would appear as if the Executives wished to thwart the operations of the Bank.

The Public however receive the Notes freely and are seldom brought to the Bank to be exchanged except as observed by the British Guiana Bank.

DEMERARY

The Notes are not received at any of the public offices--except the Registrar's and that is by a private understanding with Mr. wilday.

Question No.

7 WHETHER ANY DEPOSITS HAVE BEEN MADE BY APPRENTICES, AND HOW THEY LOOK UPON THE NOTES.

ANTIGUA

In this Island there are no Apprentices.

BERBICE

There have been no deposits made as yet by apprenticed labourers. They are generally well pleased with the Notes and take them readily.

DEMERARY

No deposits have been made by apprenticed Labourers--they prefer the Notes of the Colonial Bank to the Colonial Paper Currency.

accepted bank notes as a circulating medium. The response to question 3 indicates the constraints in the absorbative capacities of the colonies. The public could not use the notes to pay their public debts, such as customs duties, taxes, etc. The attempt by the Colonial Bank to get its notes accepted will be discussed elsewhere. The Berbice response to question 1 gave more strategically important cause for concern to the bank. Its notes were being returned for specie soon after their issue. The shortage of specie reduced the absobative capacity for Colonial Bank notes because they were payable only in silver dollars. The fact that its notes did not stay out long placed pressure on the reserves of the bank and increased the cost of such a liability. This warning signal was reinforced by the regular reports from the managers of Antigua, Demerary, and Berbice. {207} James Pennington, whom the Treasury commissioned to do a study of the West Indian currency, in 1837, explained in his report published on Aug. 17, 1838 how the anomalous state of the currency was a threat to the note issuing liability of the Colonial Bank.

> " The peculiar position of the Colonial Bank, under the present condition of its Charter, has so remarkable a bearing on the state of the currency in the West Indies....
> Being obliged by the terms of its Charter to pay all its outstanding notes in dollars, on demand, the Bank cannot carry on that branch of its business which consists of the circulation of notes, with any degree of advantage or success. The notes which the Bank advances in the discount of bills of exchange or otherwise are immediately returned upon it for payment in dollars, and its advances are afterwards repaid in a less valuable medium." [208]

Notes that returned soon after being issued required expensive

reserves to redeem them. Furthermore, the shortage of specie added the risk which the manager in Antigua reported he nearly had had to face:

> "... had it not been for the kindness of a friend, this Branch would have been put to disgrace some past for the want thereof [i.e., specie]" [209]

## (b) RUN ON THE BANKS

The most dreaded threat a banker, in the nineteenth-century, faced was a sudden demand by his creditors (i.e., those holding his liabilities), in unison--a run. The shortage of specie and the anomalous state of the colonial currency aggravated both the causes and the attempts by a bank to defend itself. The shortage of specie impelled the customers of the bank to cash-in their demands upon it where otherwise they may not have. The widespread knowledge that specie was in short supply kept confidence down and the public uneasy about the liabilities of the banks. Finally, even if a bank were solvent and profitable, the shortage of specie made the risk of its being unable to meet large and sudden demands upon it always real. In order to appreciate the horror of a run, one perhaps had to have experienced it. Its randomness, volatility, and unpredictableness made it even more difficult to understand. Its threat, however, always hung over the colonial banker. It is, therefore, worth quoting, in full, the acting attorney general's report of a run on the banks in British Guiana on Dec. 11, 1847:

" The fact of the Colonial Receiver General having demanded specie from the local Banks to the amount of $40,000 attracted very general attention, the circumstance of this large mass of Silver being conveyed through the public streets in carts induced many persons to suppose that the amount was much larger than it really was and that the Colonial Receiver General was influenced by feelings of distrust in reference to the solvency of the Banks. The Registrar of the Court of Justice immediately upon being made aware of the fact gave notice to the respective Banks that he would require Specie for their notes which he held to the amount of about $113,000. Mr. Kennedy the Administrator General who is also from the nature of his office possessed of trust funds to a considerable amount became alarmed and was about to take a similar step. Merchants in Water Street (generally speaking however of an inferior class), immediately drew checks for their balances and required Dollars in payment. The panic became at once general and the negroes flocked to Town in great numbers and demanded Dollars for the Bank Notes which they held, some to the extent of merely Thirty or Forty dollars and others to a considerably larger amount, one person of this class was found by the Police under suspicious circumstances as they conceived, with Bank Notes to the amount of $700- in his possession which he had brought from the country for the purpose of exchange for specie. The Portuguese Shop Keepers [sic] in the Rural district also increased the alarm among the peasantry by offering to purchase the Bank Notes at a discount from the more simple minded and ignorant negroes, stating at the same time that the Banks were in a precarious position; and that they could not give more than four dollars or four dollars and a half in exchange for the five Dollar Notes of the Banks. The Labourers on several Estates also refused to take Bank Notes in payment of their wages, the consequence of such circumstance as those which I have endeavoured to detail was a very brisk tho' [sic] brief run upon both Banks." [213]

## (c) CURRENCY REFORM & Public Goodwill

The unprofitability of buying and selling specie relative to the exchange business of the bank, seen earlier in this chapter, was a strategically important signpost. The profits of the bank lay in financing the international trade of the colonies and not in the role of a bullion merchant. A

bullion merchant's profits lay in the price differentials between the various metals and their different markets. The profits of a bank's exchange business required only two currencies--that of the exporter and importer. The bulllion merchant, therefore, had little incentive to initiate or carry out a reform of the colonial currency. But to the banks a stable currency was an important foundation for their operations. It simplified the their dealings without adversely affecting their operations such as the exchange business. The ability to redeem their notes and collect their debt in the same currency was another important externality. A reform of the colonial currency, necessarily, implied the designation of what constituted legal tender.

From their tireless efforts and outspoken advocacy of currency reform, it is clear that the directors of the Colonial Bank understood the strategic significance--as in the debtor-creditor laws discussed in the previous chapter--of currency reform to their success. This was explained to the first general meeting held on Jan. 28, 1838. {214} The exact reform envisioned by the directors was echoed at the third general meeting, held on Jan. 2, 1839:

> " From the period of the Establishment of the Bank, now nearly three years ago, the Directors have constantly kept under the notice of the Government, the defective state of the currency in the West Indies, and have invariably recommended, as the most correct remedy, that the Dollar should be declared the only legal tender for debt." [215]

The charter of the Colonial Bank had given Royal sanction for the debts of the bank to be paid in silver dollars. Some felt that this sanction had, de facto, accorded the silver dollar the status of legal tender throughout the colonies. The colonial agent, J. Colquhoun, for St.Christopher, Dominica, Nevis & Tortola, for example, reported in his despatch to the Colonial Office, on May 5, 1838, that the dollar was easy to understand and

> " The Spanish Dollar having been made a Legal tender in the West Indies under the Colonial Bank Act, there ceases to be any choice between that coin and sterling money as a circulating medium." [216]

The Colonial Bank may, itself, have also believed that it was HMG policy to establish the silver dollar as the legal tender for the West Indies. Evidence of this is suggested in the application of the Colonial Bank, to the Board of Trade on Aug. 12, 1836, for coins to be minted for the West Indies:

> " The Directors are induced to hope for the concurrence of His Majesty's Government in the foregoing proposition [to provide coins for the West Indies denominated in dollars], not only as a means of facilitating the working of the Colonial Bank, but a [sic] affording a material convenience to the West India Public at large and also as a preparatory step towards any measures his Majesty's [sic] Government may hereafter feel it expedient to take for the purpose of conferring on the West Indies a correct currency; it being presumed that in any such operation, Dollars + [sic] Cents would be found the most convenient description of money to be adopted." [217]

One of the immediately obvious advantages of espousing colonial currency reform as an objective was its public relations impact on the colonists as well as HMG. Colonial currency reform was a popular--even if impossible--cause. As it will be seen from the next chapter much suspicion and enemity existed towards the banks. The espousal of currency reform gained much needed goodwill for the banks. The Union Bank of Jamaica, for example, in petitioning HMG for a Royal charter in 1838, emphasized its intent to use British money, in order to bring the colonial economies closer to the motherland. {218} The petition clearly manifests a misinterpretation of the Queen's Proclamation of 1838 as indicating HMG's wish to promote the use of sterling because it was accorded the status of legal tender. It was an attempt to solicit favours by showing congruence with a presumed government policy. The Colonial Bank also used such a strategem to argue its case with HMG, in 1836. In a letter written to the Board of Trade, on March 17, 1836, the (then) promoters of the bank invoked their plan for a sound and uniform currency as justification for not being deprived--in favour of the Jamaica Bank--of banking rights that they had petitioned for in Jamaica:

London 17 March 1836

Sir

Having been informed that a Charter, for the incorporation of a Bank for the Island of Jamaica, has been presented to the Board of Trade for its consideration, we beg leave most respectfully to represent to you that such a grant, at this time, would most essentially impede, if not render impracticable for all useful and beneficial purposes the more extended plan, which we have submitted to you, ...

giving to all an [sic] uniform and correct currency.

....

The Institution which we have projected, has mainly for its object the benefits that it will confer upon the Colonies by means of a well regulated monetary System, producing the greatest economy of all--the economy of money....

We have the Honour to be
Sir
Your most obedient + [sic]
Very Humble Servants

The Right Honourable
C. Poulet Thomson
+ + + [sic]

[signed] John Irving A. Colvile
P.M. Stewart" [219]

The intent and, therefore, the ability of the Colonial Bank to establish a new sound monetary system was also alluded to in the prospectus of the bank, issued in London on Jan. 15, 1836 and published in the colonies: "One of the greates evils under which the West India Colonies suffer is... a scanty circulating medium." [220]

The Colonial Bank, due to the scale of its operations throughout the West Indies, was in a stronger position than the mere local banks. These latter banks knew that they did not have the necessary power to impose any uniform system of currency on the colonies. They, therefore, looked for monetary reform to the government. Even the Colonial Bank must have been aware of the limits of its power, given the authority of both the local and home governments. Neither its prospectus nor its charter make much of monetary reform as a major objective. In fact, it does not even appear as part of the business of banking, declared in the charter. The only reference in the charter of 1836 is the bank's obligation to redeem its bank notes (only) in dollars of

acknowledged weight and fineness. The espousal of colonial currency reform was merely a convenient means for the Colonial Bank to garner government and public support. However it may have impressed the colonists, if it did, that it did not impress HMG is clear from a letter written by Lord Glenelq to the Privy Council, on Feb. 18, 1836:

> "Lord Glenelq cannot however help expressing his doubts whether any scheme of this kind [i.e., such as that proposed by the bank] can be carried into practice unless it be by a reform in the Colonial Currency, and whether any such reform could be effected on the responsibility of the Company without involving them in liability scarcely compatible with the success of the undertaking." [221]

HMG understood the risks and obstacles that such a utopian goal--to impose singlehandedly a uniform and sound currency on the Colonies--implied.

## CHAPTER IV

## SUPPORT AND OPPOSITION TOWARDS BANKING IN THE COLONIES

A discussion of the external opportunities and threats facing a prospective banker in the colonies would not be complete without a reference to the attitude held by the public at large and the government departments (both colonial and home). These attitudes could have enhanced or reduced any of the opportunities or threats discussed earlier. The attitude of the colonists was strategically important for two reasons. From a purely marketing point of view, the prejudice and ignorance of the colonists could easily have made the successful exploitation of a otherwise, real opportunity impossible. Secondly, public attitudes heavily influenced the attitude of the colonial governments. Being looked upon as an outsider by the public, for example, generated opposition to the Colonial Bank in Demerary, by both the local legislature as well as the governor. On the other hand, approbation from HMG in the form of a Royal charter had critical strategic advantages. As colonies, the islands were under the ultimate jurisdiction--politically as well as economically--of HMG, in London. These advantages included such privileges as limited-liability, the right to issue notes, to stop payments for a limited period, etc. The possesion of such privileges had clear implications for the competitiveness of one bank, vis-a-vis another that didn't. These privileges, more interesting as strategic strengths, will

be the subject of discussion in Part C. Merely having been granted these privileges, however, was not enough. They had to be brought to the attention of, supported, and protected by the government bureaucracies, particularly, where so often an important privilege, such as monopolistic rights, was more in the spirit of the charter than contained in its explicit texts. In turn, the particular--favourable or unfavourable--interpretation which a government department was prepared to give the charter, was dependent on the attitudes of that department (including its minister and its chief civil servants) towards banks and banking in the colonies. The Colonial Office and H.M. Treasury, for example, had different attitudes towards the Colonial Bank and, consequently, interpreted its charter in different lights. This difference had strategic implications for the Colonial Bank. Unfortunately, it is next to impossible, here, to quantify or measure the impact of these attitudes. The argument is, perforce, limited to a descriptive and suggestive one. The following chapter will look at the support for and opposition to the Colonial Bank, with the hope that the strategically significant effect (of the attitudes of the public and government) upon the opportunities and threats, discussed earlier, will emerge.

### (1) THE PUBLIC, AT LARGE

The public--both at home and in the colonies--could be broadly divided into two groups. Those who were ignorant and

those who had either a vicarious grasp or a first-hand knowledge of banking operations. In hindsight, it is only possible to measure attitudes by looking at the written tracts--pamphlets, letters to newspapers, and articles in them--of people who addressed either one of these groups. These sources help explain the seriousness of some of the threats. They also identify some of the intangible obstacles to the exploitation of the opportunities at hand.

If banking, in general, had its champions and proponents in the nineteenth century such as J.W. Gilbart, it also had its avowed enemies and critics. Whereas the former, more often than not, preached to the converted, the latter aroused the fear of the masses. A typical example can be found in a pamphlet circulated in London, in 1825, against a bank that had applied for incorporation by an Act of Parliament--almost similar to the Colonial Bank more than a decade later.

> "Every concern professing to lend money on mortgage, life interest, reversions, or indeed on any description of property whatever, even on the basis of the present legally restricted rate of interest, are only so many receptacles inviting immorality and dissipation.
>
> ....
>
> Wealth creates power, and power creates influence, and when united in opposition to the public weal, becomes dangerous. I say this, fearlessly, in reference to the... about to be established by legislative enactment: the interests of this Company are in direct opposition to the best interests of the Community; and when its baneful influence becomes extended over the empire, it will ingulph [sic] within its ruinous vortex, the best interests of the United Kingdom, and her dependent colonies.
>
> ....
>
> It would have the effect of turning the current of the regular trade of the country out of its natural course.

> Instead of seeing the importer running with his samples to market, we should see him sneaking with his Invoice and Bill of Lading to the Money Lender.- Surely the English Merchant, nor the English Tradesman has not yet arrived to that climax of distress, as to require the assistance of such an Establishment, formed upon such ruinous principles, and fraught with such mischievous tendency, in a political point of view, so degrading to the high honour and character of the British Nation. What will our neighbours say when they learn that we have an established Pawnbroker's Shop for our British Colonial and Foreign Produce ? but that we are fast approaching to a state of National Bankruptcy." [222]

## (a) OPPOSITION

### (i) TO BANKING IN GENERAL

Similar fears shaped attitudes in the colonies. The Royal Gazette of British Guiana, on April 19, 1836, opened its article with: "... we think that Banks are as fruitful of mischief as of advantage...." [223] The Barbados New Times, of June 17, 1836, focused upon the risks of reliance upon an establishment whose failure might endanger those of its clientele. {224} The Jamaica Watchman, on July 9, 1836, stirred the popular fears of wealth and the power it gave individuals, such as the promoter and later chairman of the Colonial Bank, John Irving, M.P. {225} The Royal Gazette of British Guiana, on Aug. 11, 1836, carried a letter from a reader warning the colonists that the directors of the Colonial Bank were not men of honour and, hence, untrustworthy. {226} This was true, he argued, because he knew of these bankers and London capitalists! These prejudices threatened a bank, directly, by depriving it of the patronage of the ordinary people. This may not have been important to the Colonial Bank, in terms of acquiring new

deposits, but it could have drastically affected the bank's profitability, if it had limited the absorptive capacity for its bank notes. The indirect threat these prejudices posed were no less dangerous. The ignorance of the general public gave those who were jealous of the competition and/or envious of the success of the bank an instrument to use against it. The latter will be the subject of the next section. The former were those merchants and retailers who also provided financial services, such as loans, exchange, etc.

Nowhere was this jealousy of the success of the Colonial Bank more evident than in the town meetings held to oppose the bank. Those debtors and/or creditors, whose interests lay in the perpetuation of the peculiar debtor-creditor laws of British Guiana, discussed earlier for example, met to oppose the Colonial Bank's attempts to reform these laws. {227} Alternatively, it was the money-changers, who faced competition from the Colonial Bank, who opposed its attempts to have its charter amended, so that it could pay its notes in other than silver dollars. Public meetings were held, in the various islands, to petition HMG to withold the grant of any more privileges to the Colonial Bank. Such a petition (signed by 170 colonists) was sent from a town-meeting in Barbados to the governor-general, on Nov. 22, 1838. Even more important than the contents of the petition was the report sent, on the same day by the Commissariat in Barbados, to H.M. Treasury, describing those who had attended and signed the anti-Colonial Bank resolution.

"The Public meeting [sic] which I alluded to in my last report has since been held, but it is generally admitted I believe that it cannot be considered as representing the sentiments and interests of the proprietors and the community at large.- It was evidently a packed meeting and consisted on the one side, with the exception of the Chairman Sir Reynold Alleyne, of the second class of Merchants, the holders of Doubloons and purchasers of Bills, who are opposed to the Colonial Bank as interfering with a branch of business of which they had previously to a certain extent the monopoly; whilst on the other side the most prominent spheres must be regarded I am of opinion as advocates of the interests of the Colonial Bank, although they are individually Persons of weight and consideration in the Colony and must have much more at stake in the question as Planters or Proprietors than they can possibly have as Advocates of the Bank." [228]

### (ii) TO NON-INDIGENOUS BANKS

On the other hand, there were those who welcomed, supported, and even advocated the institution of a convenient and useful banking system in the colonies. These included men, like Hugh Robertson, who in his own words, "... was the first to put in motion, in this Colony [i.e., British Guiana], the machinery of a Practical Banking System... for the promotion of the Public Welfare...". [229] Robertson was a one-time employee of the Bank of Scotland, at Inverness. [230] The attitude of such men derived from their knowledge and familiarity with banking at home. They were, however, not in favour of all, or any form of banking ! They advocated colonial banking, by colonists, for colonists. Robertson was instrumental in the promotion of the two major local rivals to the Colonial Bank-- the British Guiana Bank, in 1836, and the West India Bank, in

1839. [231] In other words, even these advocates of banking were not necessarily allies of the London based Colonial Bank. Because of their prominent position in the colony, the attitude of such individuals tainted (or electorally determined, if they were members of the local legislature) the attitude of the colonial government towards a non-indigenous establishment. A representative example of the attitude of such individuals can be seen from a tract in the Royal Gazette of British Guiana, on Tuesday, April 19, 1836.

> " If we are to have a bank--and we admit that there are, in our present condition, strong reasons for desiring the institution,--in God's name [sic], let us have a Colonial Bank [sic], and for Colonial Purpose. We have money enough, since the payment of the Compensation, to render us independent of English Capitalists in the establishment of one, and even if it be necessary to admit them to a share in the concern, it is at any rate incumbent on the Colonists to secure to themselves a preponderating [sic] influence in its management." [232]

That this was not an approbation, by the colonists, of the Colonial Bank is quite clear from a later article written in the same Gazette on May 26, 1836. [233] No love was lost between the proponents of banking in the colonies and the London capitalists. Having always had to borrow their operating capital in London, the colonial planters had to pledge their property as well as the expected sales of their produce. The large West Indian merchant houses in London had, therefore, gradually evolved into holders of large mortgages upon colonial property. The excessively high rates of interest for these mortgages have already been discussed in Chapter II. The colonists had hoped that the influx of new

capital would enable the planters to relieve themselves from the exorbitant rates of interest charged by the mortgagees. {234} The directorship of the Colonial Bank was made up of wealthy and powerful merchants, some of whom were prominent members of the Committee of West India Merchants. Inevitably, they were holders of large mortgages in the West Indies. The attitude of the ordinary colonist was already tainted by the economic hold these mortgagees had over the colonies. Those colonists, who understood banking, jealously sought to exploit the opportunities at hand by fanning the colonists' prejudice.

> "The Mortgagee scheme was at first received with general favour, until we [i.e., the Royal Gazette of British Guiana] cast the first stone at it, and roused the West Indies from the apathy with which they had suffered the first approaches of the insidious clique, who, under pretence of advancing West India interests, were only anxious to secure and render permanent their own exorbitant profits.
>
> The cry has now been fairly taken up (by none have we been more ably seconded than by the Barbados Times) and having now set the example of an independent Bank [i.e., the British Guiana Bank], on truly colonial principles, we trust that it will be so far followed up.... The Charter which has been obtained by the clique... will, if there be any public spirit in the islands, be as worthless as any other waste paper. We can answer for its rejection with contempt so far as this community is concerned. Our fellow colonists [sic] have now a free choice for good or for evil. An anti-Colonial Bank, managed at a distance of 4000 miles, under the direction of mortgagees who are precluded by their Charter from relieving the mortgaged planter; and a Colonial Bank [i.e., the British Guiana Bank] on the most liberal principles, managed in the colony, and by colonists. Can there be any hesitation in choosing between them ? " [235]

## (b) SUPPORT FOR THE COLONIAL BANK

It would be wrong to imply by the above references that there were no voices raised in support of the Colonial Bank. The Royal Gazette in its attack of April 19, 1836 {234} admitted, "... that the Prospectus of the General [sic] Colonial Bank... in most instances is favourably spoken of". An example of such a colonial paper was the Trinidad Gazette of May 20, 1836.

> "The Demerary Gazette deprecates the establishment of the General Bank, because it does not contemplate within its operations, advances or loans upon the 'fixed security of real property,' but rather upon negotiable and floating securities. We consider the latter securities to be the only legitimate investments of a Commercial Bank, and that a Bank which contemplated lending money upon mortgage of real property in these Colonies, must also contemplate, as part of their security, some kind of control and appropriation of the crops of the property mortgaged, and it would necessarily become not a Commercial Bank, but a Trading Mercantile Company.
>
> ....
>
> ... altho' [sic] Demerary, Jamaica, and some other colonies, are opposed to the establishment of the General Bank now in progress, yet we cannot see that any disadvantage can arise from its operation here, and we are anxious for its success." [236]

Further evidence of public approbation for the Colonial Bank can be found in a pamphlet by G.R. Young.

> "My evidence is... that there is a similar feeling of confidence and favour felt in the West Indies towards the Colonial Bank, and that the scheme has been received there in the kindest spirit. That the institution is popular, and the agencies successful, cannot be doubted if the experience and prospects of the Bank be a standard upon which dependence may be placed." [237]

Much of this support had to be earned by a publicity campaign

which the Colonial Bank commissioned, at its inception, to assuage public fears and suspicions. The strategic significance attached by the bank to winning over the public, at large, can be seen from the timing and the expense it was prepared to undergo.

(i) THE COLONIAL BANK'S CAMPAIGN TO WIN PUBLIC SUPPORT

At their first inaugural meeting on March 31, 1836 (even before the charter had received the Royal assent), the provisional directors, before any other business, addressed themselves to this problem. The minutes of that meeting are extant in the Colonial Bank archives.

> "It was proposed and Resolved
> that Mr. Jas.[sic] McQueen of Glasgow be employed to visit the different West India Islands for the pupose of furthering the arrangements of the Corporation and that Mr. Irving [the chairman to be] be requested to apply to Mr. McQueen on the subject." [238]

James McQueen was well known to the directors of the Colonial Bank. In April 1839, he joined them in promoting the Royal Mail Steam Packet Company--a project he began soon after his return from the West Indies for the Colonial Bank. The centenary history of the Royal Mail Line, written by T.A. Bushell, gives the following biographical sketch of McQueen. [239] The Gentleman's Magazine of Jan. 1846 radically differs from this account only in the date of McQueen's birth, which the magazine regarded as being 1767.

> " Born at Crawford, in Lanarkshire, in 1778 [making him nearly 60 years old when he travelled to the West Indies for the Colonial Bank], MacQueen [sic] was managing a sugar estate in the West Indian island of Grenada at the early age of nineteen years. He was a great traveller, and during his many sojourns in the West Indies he visited almost every island and port in the Spanish Main, assiduously setting down every detail that came to his notice until he possessed an unrivalled knowledge of the entire Caribbean basin." [240]

McQueen was a famous and venerated advocate of the West India colonies. Even the editorial comment in the Royal Gazette of British Guiana, which opposed the establishment of the Colonial Bank and gave its approbation to the rival local British Guiana Bank, admitted the formidable public relations value McQueen would have for the Colonial Bank. {241} On May 5, 1836, the still provisional directors appointed an adhoc committee to help plan the intinerary of McQueen. The minutes of this committee reveal the painstaking detail devoted to the planning of the campaign. Clearly, the bank placed a significant degree of strategic significance to winning popular support for their operations. The committee designated the islands he was to visit and the number of days they felt he should devote to each colony. The latter was no doubt an indication of both the importance attached by the directors to that colony, as well as the degree of expected opposition. McQueen, for example, was scheduled to spend--outside Jamaica and Barbados--an average of six days each in British Guiana, Tobago, Trinidad, Grenada, and St.Vincent, while devoting an average of only three days each to St.Lucia, Dominica, Antigua, St.Kitts and Tortola. [242] The committee even

took into account the number of times McQueen should return to Jamaica, where the directors could write to him in answer to his reports, while enroute. In Barbados, McQueen was to be joined by a younger and also prominent local man, Michael McChlery, whom the directors may well have already considered as the first manager of Barbados and superintendent of branches-see the report of McQueen's journey given to the first half-yearly general meeting of proprietors on Jan. 25, 1838 {242} cited in the Appendix. The directors approved the above recommendations of the adhoc committee and authorized the expenses.

> "Resolved That Mr. James McQueen of Glasgow be appointed to to proceed to the West Indies to make arrangements for carrying into effect the objects of this Corporation; and that his salary during the period of his employment be at the rate of Twelve Hundred Pounds per annum, together with all necessary expences [sic] attending his mission; the same to commence from the period of his embarkation." [243]

These expenses were given in a report by the chief accountant, to the directors, after McQueen's return on May 8, 1837. They are cited, in detail, in the Appendix. A summary, below in Diagram 5, shows the cost the Colonial Bank was prepared to incur, in order to win a measure of public support in the colonies. Not suprisingly, travel, advertisements and printing appear as large disbursements in the accounts rendered by McQueen. He travelled to meet influential colonists, individually and at public meetings, winning them overto the bank. He printed

DIAGRAM 5
SUMMARY OF THE EXPENSES
OF JAMES McQUEEN
FOR THE COLONIAL BANK
1836--1860

REF:{244}

| | | | |
|---|---|---|---|
| [A] | Salary: June 1836June 1837 | £ 1200 p.a. | £ 1200 |
| [B] | Expenses Incurred in the W.I. | see App.I | 1243„18„ 8 |
| [C] | Salary: June 1837June 1839 | 600 p.a. | 1200 |
| [D] | Contribution to his Memorial Fund in 1860 | | 100 |
| | Total | | £ 3743„18„ 8 |

leaflets explaining the objectives of the bank and advertised its prospectus in the local newspapers. This is evident from an open letter to the Royal Gazette of Jamaica, soon after his arrival. {245} McQueen outlined his task and revealed his purpose in coming back to the colonies on behalf of the Colonial Bank.

The employment of McQueen suggests that the Colonial Bank anticipated opposition but believed it could be controlled. This is confirmed by the chairman's remarks, albeit in hindsight, at the first general meeting.

> " The Directors have likewise had to contend with the prejudices invariably felt by all communities against Institutions, the objects and operations of which are new and not well understood. They fully anticipate however, that these prejudices will soon give way before the real advantages in point of Security, Convenience, and Punctuality which are offered by the Bank." [246]

## (ii) FEEDBACK FROM THE BRANCHES: MEASURING SUCCESS IN SUSTAINING PUBLIC SUPPORT

A questionnaire circulated to managers on Dec. 13, 1837 was designed partially to test the ability of the bank to sustain the work in public relations begun by McQueen.

Question No. 6 was designed to provide feedback concerning the control of opposition from the branches. The extant responses from the branches are summarized in Diagram 6. The first part of question no. 6 simply gauged the success of the efforts devoted to winning over the public. The second part of the question was more subtle. It reveals a sophisticated degree of strategic planning on the part of the Colonial Bank. It takes note of the possibility that some opposition might well have been a direct result of the operations of the bank itself. An illustrative example of how the bank could antagonize the general public--or a member of it--by its routine operations was reported by the worried manager in Demerary to the directors, on Dec. 5, 1839.

> " I transmit under cover to you the Guiana Chronicle of the 2d. Instant [i.e.,Dec.2,1839] which I will thank you to lay before the Court of Directors.-
>
> My object in forwarding this paper is to bring under notice of the Court an Article against the Bank, or more properly against me as Manager, the evident intention of which is to injure me in the estimation of the Directors.
>
> Public Opinion assigns the authorship of this article, to Judge Norton, who is pretty generally believed to have written most of the leading Articles that have appeared in the Guiana Chronicle for some time.- Altho' [sic], of course not certain on this point, I am morally convinced that such is the case both from internal evidence and from the fact of his brother-in-law being the Editor--It will no doubt appear incredible that a person in his Station should write in the public prints, but I can assure you that this is not at all inconsistent with the violent political partizanship [sic] which the Judge has lately displayed.;
>
> The charge made against me, you will perceive under the irony which pervades the Article, is two fold.- First, that as a Member of the Court of Policy, I sacrificed the Interest of the Colony to that of the Bank--referring, of course, to my having supported the redemption of the Currency.- As to this charge I do not propose at present to say anything-- I know that it is unjust, and that time will shew [sic] that I took a correct view of the real interests of the Colony. [continued after Diagram 6]

DIAGRAM 6
RESPONSES TO THE FIRST QUESTIONNAIRE
ISSUED TO MANAGERS OF THE COLONIAL BANK
CONCERNING THE PUBLIC ATTITUDE TO THE BANK
DECEMBER 13, 1837 [247]

| | |
|---|---|
| QUESTION No. 6 | THE OPINION OF PUBLIC, MERCHANTS, PLANTERS, ETC. AS TO THE BANK AND THE PROBABLE CAUSE OF PREJUDICE AGAINST IT, IF ANY, WITH THE PROPOSED REMEDY FOR THE SAME--ALSO ANY COMPLAINT OF CHARGES BEING TOO HIGH IN EXCHANGE, INTEREST, OR OTHERWISE ? |

| BRANCH | RESPONSE |
|---|---|
| ANTIGUA | The inhabitants in general are very well disposed towards the Bank, and are learning every day more and more of the benefits to be derived by the Island from the Establishment. There may be a few individuals, who from an idea that the institutiton will be injurious to their interests, look upon it with a jealous eye, but I believe their number is small, and their enmity will entirely cease as soon as they become acquainted fully with the working of the concern. No particular complaint against our charges. [a] |
| BERBICE | The Bank stands high in the estimation of Planters and Merchants, excepting only those immediately connected with the Rival Establishment and several of the most respectable of these discount paper and do business here .... No complaint has been made of the charges of the Bank- [b] |
| DEMERARY | There is generally a favorable [sic] opinion entertained of the Bank and it is looked on as likely to prove a useful institution to the Colony. No prejudice exists against it that we are aware of, our having so few customers arises from the circumstance of nearly one half the Community being shareholders in the British Guiana Bank and who naturally do the most of their Business there, we think however when people get better acquainted with Banking Business the transactions will increase. We have heard of no complaint against the chag. [sic] made by this Branch except one or two instances of grumbling at the rate of interest being raised this year to 6 per Cent. [c] |

The second part of the charge I must however refute more in detail.- It amounts to saying that I allow feelings of party politics to weigh with me in my dealings with the public as Manager--I particularly deny that there is any truth in this insinuation, and I know what caused Judge Norton to make the malicious assertion--some time ago a Note of his for $500 in favor [sic] of Mrs. Harriet Fullerton was presented for discount--Mr. Rennie [the branch accountant] happened to bring it in, and as he had lived in the Boarding House formerly kept by Mrs. Fullerton I asked him what he knew of her circumstances--He said that she had told him that the Judge owed her $1500 for Board, and that she could get nothing from him--Knowing that the Judge has nothing but his Salary, and is an extravagant man, I declined discounting, giving for answer to Mrs. Fullerton that I was not discounting at that time.- I observed at the time to Mr. Rennie, that I thought it was doing a service to the poor woman, and that I was sure Judge Norton would impute my refusing the Note to political feeling, but that there was no help for it, as I did not consider the paper safe.- It is true, on a former occasion, I discounted a similar note--But at that time Mrs. Fullerton had a house worth £1000 and a good business. Since then she has sold the House and got into a Law-Suit about it, and I really do not know how much she may be involved.

Mr. Norton has chosen his time well to make an attack upon me--He has the press at his command, as the only other paper the Gazette is fettered by its connection with the Government. There is also of course more or less a feeling in the Community against the Bank for having limited Disctg [sic], but it is not so much his object, I know, to injure me with the Community here as with the Court of Directors and my friends generally at home. My conviction, that no pains will be spared by him and by his Party to disseminate the paper at home, and to accompany it by insidious and unjust private statements reflecting on me must plead my excuse for taking up the time of the Court by this personal matter." [248]

## (2) THE ATTITUDE OF THE GOVERNMENT

The colonial banker required the approbation of the colonial and home governmnents for two broad strategic reasons:

(1) the need for government protection, and

(2) the need for government support.

Government protection could mean several things. To begin with, protection implied the provision of physical safeguards for the security of bank premises. The protection from unfair laws, such as the debtor-creditor laws, has already been discussed. Protection from bad debtors was even more serious, if the debtors were foreign nationals, encouraged and protected by their government. Finally, it was within the powers of government to protect a bank from its competitors by the grant of monopolistic rights. But even where such rights were not explicitly granted, they could be secured by merely interpreting a Royal charter in a favourable light. On the other hand, the government could by extending its support reduce some of the threats discussed earlier. Ideally, the government could have reduced (or eliminated), as it often does today, the ultimate threat of insolvency and failure facing the banker in the colonies.

In any case, government support had its costs. A bank seeking support had to conform to the rules and regulations imposed by the government. These, being more interesting as strategic strengths (or weaknesses), will be the subject of a later discussion.

The application of such rules and regulations often depended upon the 'spirit' rather than the letter of the rules. As such, they were much more a function of attitudes held by the government departments and public servants towards banking in the colonies. The privilege to issue notes, for example,

required HMG sanction and had to conform to prescribed rules. It was another matter, though, for the government officers to support such notes, by accepting them in lieu of specie. This section will focus attention upon the attitudes of the colonial and home governments towards banking which affected the external opportunities and/or threats facing the banker.

## (a) THE APPROBATION OF HMG

European monarchies had traditionally expressed their approbation of bankers by granting them a Royal charter. Before the evolution of joint-stock banking, a Royal charter implied both the protection and the support of the grantor. [249] In the 1830s in England, of course, a Royal charter had more specific attractions for the joint-stock banks. The advantages of limited-liability, etc., will be relegated to the discussion of strategic strengths, later on in Chapter IV.

The protection and the assistance to be rendered by HMG to chartered banking companies were couched in vague terms. They were derived from the 'spirit' of the charter. As such, they were open to interpretations by those whose protection and assistance was sought in the government. The 1836 charter of the Colonial Bank, for example, contained the following ambiguous injunction:

> "And we do hereby require and enjoin the respective Governors of our said several Islands and Colonies for the time being to give full force and effect to these our Letters Patent, and to be in all things aiding and assisting to the said Corporation and their successors." [250]

Neither 'aiding' nor 'assisting', in themselves, explicitly granted any specific privilege, such as HMG support and/or protection. Such privileges depended upon the interpretation of these words. This, in turn, depended upon the attitude held by the government departments towards the bank. The attitude of the Colonial Office, for example, can be seen in an answer written to the Privy Council, on Feb. 18, 1836. This letter is one of the rare pieces of evidence extant in the PRO relating to the discussion within HMG whether or not to grant a charter to the Colonial Bank.

"Colonial Office
18 Feby.[sic] 1836

Sir,

I am directed by Lord Glenelg [the Colonial Secretary] to acknowledge the receipt of your Letter of the 13th instant, enclosing the copy of a Petition to His Majesty on the subject of a proposed Colonial Bank, together with the draft of the Charter for the establishment of the same, and proposing for the consideration of Lord Glenelg three questions upon which their Lordships are desirous of receiving his opinion before submitting to His Majesty their advice upon the subject under reference to them....

....

With regard to the British West Indies Lord Glenelg sees no reason to question the policy on general grounds of the Establishment in those Countries of a Banking Company constituted on sound principles....

....

I have the honor [sic] to be
Sir,
Your most obedient
humble Servant
[signed] Jas.[sic] Stephen

Denis Le Marchant,Esqre.[sic]
+++ "[251]

The value of even such a seemingly neutral attitude was strategically very significant. It allowed an interpretation of the charter, when granted, highly favourable to the Colonial Bank. This interpretation was outlined in a private circular issued to the colonial governors by the Colonial Office, on Nov. 1, 1836.

> " I enclose for your information the copy of a Letter which has this morning been received at this Office from the Secretary to the Court of Directors of the Colonial Bank. I also enclose the copy of the Charter of that Corporation.
>
> ....
>
> ...I need, however, scarcely add that the measure was not adopted without the entire concurrence of his Lordship and of His Majesty's Government generally. Having been thus sanctioned by them, it became almost a matter of course that the Company should be recommended to your protection and assistance in carrying their plans into execution. I am convinced that by affording all possible countenance to the Company and their Agents in the accomplishment of the objects of their Charter, you will be acting in strict conformity with Lord Glenelg's intentions.
>
> You will observe that the Charter does not confer any exclusive privileges and I have no reason to believe that it was intended to prevent the fair competition of any other society to be hereafter formed. On the other hand, there can be little doubt that His Majesty's Government would hesitate to grant any new Charter of the same kind, until the Colonial Bank should have enjoyed a reasonable opportunity of establishing themselves in the Colonies, and for bringing to the test of a fair trial, the solidity of the principles upon which they are required by their Charter to act. In the event of any legislative measure of the Colony under your Government being tendered for your acceptance, you will I am convinced fulfil the purposes of His Majesty's Government by withholding your assent to any such Law until His Majesty's pleasure shall be first known." [252]

The words 'aiding' and 'assisting' had conferred no explicit privilege. The above interpretation, however, impelled the

colonial governors to withhold the incorporation of other banking companies, ensuring a de facto monopoly to the Colonial Bank. The application of the Jamaica Bank for incorporation and sanction to issue notes, for example, was disallowed by the governor, Lionel Smith, in Dec. 1836. His despatch No. 39 reporting the suspension of the act passed by the local legislature to incorporate the Jamaica Bank is extant in the PRO. {253} It is quite clear that the Colonial Bank, itself, understood such protection to be its right. The following reaction was recorded in the court minutes of Oct. 27, 1836 to the news that a rival bank had been established in British Guiana.

> "A Prospectus of a projected Local Bank at Demerara [sic], and a private letter on the subject to Mr. McGarel [one of the directors], having been read it was deemed expedient to call the attention of His Majesty's Government to the same and to solicit their countenance and protection to the Colonial Bank Charter. It was therefore
>
> Resolved that the Secretary do address a letter, conveying the sentiments of the Court of Directors on the subject, to the UnderSecretary of State for the Colonies, Sir Geo.[sic] Grey Bart. [sic] which letter was drawn up and approved by the Court." [254]

A subsequent entry on Nov. 10, 1836, confirmed this belief. The Colonial Office and its undersecretary, James Stephen, were prepared to support and protect the Colonial Bank. {255}

Did the Colonial Office interpretation reflect a

widespread or uniform government attitude ? In the archives of the Colonial Bank, there are evidences of HMG protection from only two other government departments--The Adjutant-General and the Foreign Office. The protection accorded by the Adjutant-General was in providing sentries to guard the principal branches of the bank. This was recorded in the minutes of the committee for general purposes {256} and the minutes of the court of directors. {257} The protection of the Foreign Office, on the other hand, was invoked when the Colonial Bank needed help in the retrieval of bad debts, frozen by the 'Law of Epera', in Venezuela. Although, this occurred in 1851, the degree of commitment which the then Foreign Secretary, Lord Palmerston, was prepared to make clearly shows the advantages of a favourable attitude on the part of HMG. The details of the case will be discussed later with the weaknesses of foreign branches.

> "The Chairman [Charles Marryat] reported that in pursuance of the directions of the Court, he and Mr. Hoare [the Deputy-Chairman], accompanied by Mr. Miranda [the Manager at Caracas], had had an interview with Lord Palmerston, who admitted the justice of the Bank's complaints against the Government of Venezuela, and stated that HMG had given urgent instructions on the subject to their Charge d'affairs at Caracas and would continue to do so; that if those instructions did not produce the desired effect it would probably become necessary to blockade the Ports of Venezuela-...." [258]

## (ii) THE TREASURY AND THE BOARD OF TRADE

The attitude of the Treasury, on the other hand, was not as favourable to the bank. This was, interestingly, not due to any financial or economic shortcomings of the bank. It rather stemmed from the way the promoters of the Colonial Bank went about petitioning and receiving their Royal charter. The promoters negotiated the terms of the charter with the Board of Trade and received their charter via the Home Office, circumventing both the Treasury and the Colonial Office. This had not caused any ill feeling at the Colonial Office. The favourable circular from the Colonial Office, cited earlier, passed the whole matter off as an accident:

> " You would have received this Charter [of the Colonial Bank] at a much earlier period, but from the accidental circumstance, that it was passed not with the countersignature of the Secretary of State having the Department of the Colonies, but of the Secretary of State for the Home Department. Lord Glenelg had therefore no official cognizance of its contents, nor even of its existence." [259]

The Treasury and the Chancellor of the Exchequer, however, were not so forgiving. An acrid memo of the Treasury Board is extant in the PRO, dated July 19, 1836. Although lengthy, it depicts the process by which the Colonial Bank had displeased H.M. Treasury.

> " The Chancellor of The Exchequer states to the Board that the copy of a Charter by which a Company has recently been incorporated for the promotion of Banking Establishments in the West Indian Colonies had been forwarded to him by direction of the Secretary of State for

the Home Department when the Charter was on the eve of completion and that he had had occasion to observe that altho'[sic] a personal communication had taken place with himself on the subject of this Charter the proceedings relating to it had been carried on without any official notification to and without the concurrence of the Treasury Board, and that it did not contain some of those precautionary conditions for which the Board had considered it advisable to provide in other charters for similar purposes.

The Chancellor of the Exchequer had however found that the terms of this Charter had been arranged with the applicants for it by the Committee of Privy Council for Trade, that they had been approved of by His Majesty in Council, and were not considered objectionable by the Secretary of State for the Colonies; and being also informed that upon the faith of such approval the Capital of the Company had been raised and that it was of importance that the completion of the Charter should not be delayed, and concerning that the Interests of the Public would in this instance be adequately secured by the large amount of the subscribed Capital and of the paid up portion of that subscription, with the terms and provisions of the Charter generally, he had felt precluded from interposing any impediment to its promulgation; but he now calls the attention of the Board to the Minutes of 11th. Nov. [sic] 1831 and 9th. April 1833 on the subject of Charters for Banking Companies, and suggests that it is most expedient and desirable that steps should be taken for ensuring to My Lords the means of excercising the supervision and control over any future grants of this description which those Minutes so distinctly contemplated.

....

Having now reconsidered the arrangements provided for by the Minutes of 11th. Nov. [sic] 1831 and 9th. April 1833, My Lords see no reason to question their propriety or the expediency of adhering to them; on the contrary, it appears to My Lords to be desirable that every precaution should be adopted, to prevent any steps being taken from which it might be inferred that projects for incorporating Banking Companies will be sanctioned by His Majesty's Government, until the proposals of parties applying for Charters shall have received the distinct assent of My Lord's Board as well as His Majesty's Privy Council, and of the Secretary of State under whose cognizance the application may more especially fall.

....

In pursuance of these views My Lords are pleased to to direct that a copy of this Minute be forwarded without delay to the clerk of His Majesty's Council in Waiting in order that it may be submitted to the Lord's of His

Majesty's Privy Council, with My Lord's request that their Lordships will give such directions as will for the future prevent the authority of His Majesty in Council being obtained for the incorporation by Charter of any Banking Company until My Lord's Board shall have had opportunity for considering the provisions of the Charter, and shall have signified their approval of the object and terms of it.

Transmit copy of this Minute to Mr. Le Marchant in order that it may be submitted for the information of the Lords of the Committee of Privy Council for Trade.

Transmit copy of this Minute to Mr. Stephen in order that it may be submitted for the information of Lord Glenelg....

Transmit copy of this Minute to Mr. Phillips in order that it may be submitted for the information of Lord John Russell. " [260]

The displeasure of the Treasury had a significant strategic affect upon the operations of the Colonial Bank, particularly when it needed Treasury approval for something. This will be discussed in Chapter V. The purpose, here, has merely been to note the cost of inviting government disfavour. A measure of this cost can be discerned from the effect of this displeasure upon the Colonial Office interpretation of the charter, discussed earlier. A Treasury memo in the PRO, undated, shows a marked difference in the understanding that the charter conferred, even a temporary, monopoly to the Colonial Bank.

"Memr.[sic] respecting representations submitted to the Chancellor of the Exchequer on the part of the Colonial Bank. The object of the formal communication from the Chairman of that Board of Directors is the disallowance of an Ordinance passed by the Legislature of British Guiana for incorporating a Banking Company in that Colony....

...The pretensions of the Colonial Bank to special countenance from the Government, or to fair time for its Establishments to get to work before any other Banking Company should be Chartered in the Colonies either by the Crown or by Colonial Ordinance, have been distinctly repudiated by the Board of Trade." [261]

Being undated, it is not clear from the memo which directive of the Board of Trade was being referred to and when it may have been issued. A letter is extant in the PRO from the president of the Board of Trade, Denis Le Marchant, to James Stephen at the Colonial Office, dated Feb. 14, 1836, seemingly favourable to the Colonial Bank interpretation. It expressed surprise at the incorporation of the British Guiana Bank and continued:

> "Their Lordships wish to be furnished by Lord Glenelg with any information he may be able to communicate as to the motives which have led to the consent of the Governor being given to this ordinance in contradiction, as it appears to them of the general Instructions of the 31st. August 1836.... " [262]

However, in a later letter also extant in the PRO from Le Marchant to Stephen, dated Nov. 24, 1837, there is a clear change in the attitude of the Board of Trade. The reasons for this change are unclear. The new attitude clearly rejected the Colonial Office interpretation.

> " On the said point Their Lordships feel it incumbent on them to protest against any pretensions [sic] that may be set up by the Colonial Bank in restriction of the excercise of Her Majesty's Prerogative to Charter other Banking Establishments in Her West India possessions. No such provision is contained in their Charter, and in the various communications that have taken place between this Department and the Directors or supporters of the Company any intention on the part of the Government to create a monopoly in favour of the Company has repeatedly been disowned, and these Gentlemen were distinctly told before the Grant of their Charter was recommended, in a Letter from the President of this Board that the same privileges would be conferred upon any other company conducted upon principles such as would entitle it to the sanction of Her Majesty's Government." [263]

The attitude of the Treasury and the Chancellor of the Exchequer opened the doors for any new entrant, thereby increasing the threats arising from competition. It also must have nullified one of the most attractive strategic reasons for seeking a Royal Charter, in the first place.

### (iii) HMG AS A LENDER OF LAST RESORT

The attitude of HMG precluded any protection for a bank from its commercial threats. Neither was HMG prepared to extend its support to rescue a faltering or insolvent bank--unchartered or chartered. The unchartered Planters Bank, for example, was allowed to fail in 1848, despite appeals to save it in the public interest. A look at the deliberations sheds more light upon the attitudes of HMG towards banks which might have had to face a similar ordeal.

The Planters Bank had been established in Jamaica by a 'deed of settlement' on July 1, 1839. In a letter to the governor, Sir Charles Metcalfe, dated Dec. 16, 1839, the secretary explained bodly that "the Bank seeks no Charter nor Bill of Incorporation, to limit the liability of its Shareholders. The Directors are conscious in their own efforts--the Shareholders confide in them, and shrink not from the responsibility". [264] A despatch to the Colonial Office, dated Aug. 19, 1848, reported the failure of the Planters Bank. A committee was appointed to consider the petition of the bank to be rescued in the public interest. The record of that committee

and the examination, under oath of the witnesses subpoenaed, is extant in the PRO. The chairman of the Planters Bank first justified the need for a rescue.

> " Q: Should the legislature refuse this aid, what will be the course pursued by the bank, and the consequence of those indebted to it ?
>
> A: The only mode that I can point out would be, that all the claims of the bank must be enforced, and the consequences will be, so far as I can judge, from attempts made in recent instances, the utter ruin of the estates and the parties proceeded against...." [265 ]

Under oath, the managers of the two incorporated banks in Jamaica, the Jamaica Bank and the Colonial Bank, testified that there was sufficient grounds for a rescue operation to be recommended by the committee:

> " Q: Can you [the manager of the Jamaica Bank] afford this Committee any information as to the probable consequence to the public at large, of the planters' bank notes [sic] remaining unredeemable...?
>
> A: I think that beyond the inconvenience which must be felt by all parties doing business in the country, in consequence of their not being able to make these notes available, that the confidence of the labouring population would be very much destroyed in any circulation of bank papers; and the circulating medium would be reduced to a most inconvenient and inadequate amount." [265]

> " Q: Can you [the manager of the Colonial Bank] afford this committee any information...?
>
> A: The probable consequence of the stoppage of the planters' bank [sic], will, no doubt, be very considerable inconvenience to the public at large, but most especially in those districts in which they have had nearly the monopoly of the circulation...." [265]

The committee's conclusion, "...in recommending the petitioners to the favourable consideration of the house [i.e., the House of

Assembly of Jammaica]" [265 ], however, was categorically opposed by HMG. In his response to the despatch from the governor, the Colonial Secetary, Earl Grey, advised the governor to refuse assent to any help by the local legislature for the Planters Bank. [266] Not surprisingly, the house turned down the committee's recommendation on Sept. 19, 1848.

This unwillingness on the part of HMG to rescue banks was not limited to unchartered ones alone. The chartered West India Bank, which stopped payment also in 1848, received no more favourable support. The despatch from the governor of Barbados to the Colonial Secretary announcing the failure also discussed the merits of a rescue.

"Barbados
No.80
Financial

Windward Islands
Barbados
7th December 1847

My Lord,

I regret that I have to report to Your Lordship that the West India Bank has suspended payment. Its Charter allows it to do so for 60 days in each year.

I am sorry to say the Surplus Revenue of the Island is in this Bank.

....

As might have been expected I have had paper schemes urged upon me, which I cannot agree to.... The state of distress is great and general. Some further aid from the Military Chest, as a loan to the Colony, may perhaps be properly given, but at present I think it best to strive to do without it; to inculcate self-reliance; and to leave individuals to make their own arrangements to meet the difficulties they are labouring under.

....

The Right Honorable [sic]
The Earl Grey
+++

I have the honor[sic]to be,
My Lords,
Your Lordships,
Most Obedient
humble Servant
[267] [signed] Wm.[sic] Reid Governor

At this time the bank still had a period of grace to look forward to. The actual request for a rescue was made by the extraordinary directors (appointed to wind up the bank) to the governor of Barbados. [268] Having failed in its attempt to obtain support from the governor, the bank petitioned HMG on Feb. 26, 1848 for reprieve from the loss of the Royal charter. {269} Once again, HMG was not prepared to intervene in order to support a bank--even one with a Royal charter. The strategic lesson must have been clear, if there was any doubt in the first place. HMG could not be relied upon as a lender of last resort. Assuming that this attitude of HMG was to be expected and not a radiacal departure from the laissez-faire policies of governments of the time, it must have been evident to the prospective bankers, looking at the West Indies, that they were on their own. Very little or no support was to be expected from HMG.

### (iv) HMG AS A PATRON

This attitude even affected the opportunity, outlined earlier, to supply the retail banking needs of HMG in the colonies. Nowhere was this as obvious as the circulation of bank notes. The right to issue an unlimited amount of notes, from denominations of $5 and upwards, constrained only by their being payable in silver dollars of exact weight and fineness, was a privilege of the Colonial Bank. The acceptance of these notes by the various deparments of HMG in the colonies would have

greatly enhanced their circulation. This, in turn, would have meant increased profit opportunities for the bank. But it implied a support for banks, in general, and the Colonial Bank, in particular, which the Treasury was reluctant to espouse. Although not extant, a circular is known, from other sources, to have been issued by the Colonial Office on Aug. 31, 1836 warning the colonial governors not to sanction the circulation of notes by local banks without HMG approval. Coming soon after the establishment of the Colonial Bank and given the favourable disposition of the Colonial Office, it may well have been the purpose of this circular to, once again, restrict the institutional competitors of the Colonial Bank. There was little the government could do about the circulation of private notes. These could not be restricted by laws without seriously damaging trade between individuals. It therefore provided a loophole for local banks to evade the circular of Aug. 1836. The governor of Jamaica's disallowance (cited earlier) of the Jamaica Bank's act of incorporation, which gave it the right to issue bank notes, was an impotent gesture. He, in a later despatch dated Feb. 15, 1839, admitted [270], "... that the Local Legislature passed an Act of Incorporation for a Jamaica Bank, which was disallowed, but this had no effect whatever in preventing the Bank going on with their Promissory Notes ...". The bank continued to issue private notes. Nevertheless, it was support given to the Colonial Bank charter. Such support for the Colonial Bank was not found among all the governors. In

Demerary, as will be seen hereafter, this was a deliberate result of the opposition of the legislature and the governor to the bank. The governor refused to even voice support for the Colonial Bank charter when the rival bank began to issue such private notes. The Colonial Office found some governors using this circular as a pretext to prevent the circulation of Colonial Bank notes. The matter was serious enough for the Colonial Office to issue, on June 27, 1837--with the urging of the Colonial Bank--another circular {271} declaring the Colonial Bank notes as exceptions to the instructions given in the circular of Aug. 31, 1836. But once again, the Treasury appears to have intervened against the interests of the Colonial Bank. The original letter written on June 27, 1837 by the Colonial Bank to the Treasury is extant in the PRO. Fortunately, it has written on the reverse the opinion of the Treasury. First, the letter:

Colonial Bank

London 27 June 1837

Sir

I am instructed by the Court of Directors of the Colonial Bank to acquaint you, that considerable misconception has arisen in the West Indies respecting the authenticity of the issue and circulation, of the Notes of the Colonial Bank; in consequence of which the Directors respectfully solicit that the Lords Commissioners of Her Majesty's Treasury will be pleased to recommend Her Majesty to issue such instructions to Her Majesty's Officers of the Commissariat, Customs, Post Office + [sic] other Government Establishments in the various Islands + Colonies in the West Indies, as shall authorize their receiving Colonial Bank Notes in payment of Taxes, Duties etc. etc. and generally in all transactions wherein they may have to receive paynment of monies.-

I am further instructed, to state that the Establishment of the Colonial Bank at the Islands of Jamaica, Barbados, and Trinidad and also in British Guiana together with subsidiary Branches at Grenada, St. Vincent, Tobago, Antigua, St. Kitts, Dominica are now in active operation; and the Directors beg to tender Her Majesty's Government the services of these Establishments and Branches as places of secure Deposit for Public Monies; respectfully soliciting in the event of Her Majesty's Government concurring in these suggestions, that the necessary instructions be given to the Officers of Her Majesty's Government in the Colonies.-

I have the honor[sic]to be
Sir
Your most Obedient
and humble Servant
[signed] C.A. Calvert
Sec. [sic]

[On the reverse:]

read 17th July 1837

My Lords do not deem it a advisable [sic] to issue the instructions to the officers of the Commissariat Customs Post Office + [sic] other Government Establishments in the West Indies herein proposed and they therefore consider it unnecessary to direct any further steps to be taken with reference to this application.

[initialled] GWB " [272]

Not having received a favourable answer from the Treasury, the Colonial Bank, once again on July 29, 1837, approached the Colonial Office, who forwarded their letter with a cautious cover note dated Aug. 5, 1837. [272] These were read at the Treasury meeting of Aug. 11, 1837 and the extant minutes record the Treasury decision that it was inadvisable to support the Colonial Bank. [272 ] The bank, however, was undaunted. It fell back on

the Colonial Office circular of January 1837, discussed earlier. Without access to the Barbados and Grenada minutebooks or letterbooks, it is impossible to tell how, but the bank succeeded in acquiring the needed authority in May 1837, from the governor-general in Barbados, to have its notes accepted in Barbados and Grenada. The governor reported this in his despatch of Sept. 21, 1837. It closely follows the reasoning the bank used to present its case for HMG support. It is also worth citing this despatch because of its marked contrast with the attitude of the governor of Demerary, discussed later.

"Grenada
No. 207

Govt.[sic] House Barbados
21st. September 1837

My Lord

The enclosed correspondence [not extant] relates to a question that has been raised in Grenada, relative to notes issued by the Colonial Bank, upon which subject I have to request to be honored [sic] with Instructions by your Lordship.

In the meantime, with reference to your Lordships Circular letter of the 26th. Jany.[sic] last, sanctioning the circulation of such Notes, and to Sir G. Grey's Circular of the 1st. Novr.[sic] 1836 ( a Duplicate of which accompanied your Lordship's of the 16th. Jany. last,) recommending the Company to my protection and assistance, I hope that your Lordship will not disapprove of my having authorized the Officers of Her Majesty's Customs here, and having advised the Lieut.[sic] Governor to authorize the Officers of that Department in Grenada, to receive the Bank notes in question.

The Lord Glenelg
+++

I have etc
[sic] E.J. Murray MacGregor
Governor" [272]

The Colonial Office added its cover note, on Nov. 16, 1837, and asked the Treasury for advise on what to answer the governor-

general. Although lengthy, the minutes recorded the unequivocable lack of support for the bank in the Treasury. The Treasury argued that the notes, if supported, might be construed as legal tender.

> " 21st. Novr.[sic] 1837
> Read
>
> My Lords have the enclosed documents under consideration and refer to their Minutes of 8th Augt.[sic] last on the report of the Comers.[sic] of Customs respecting the directions given by the Governor of Barbados in the month of May last in regard to the receipts of the Notes of the Colonial Bank in payment of Customs Duties in tha Island, and of 11th August on the application which had been submitted by the Directors of the Bank to Lord Glenelg praying that the Governors of Her Mys.[sic] Colonies might be instructed to authorize the Colonial Treasurers to receive the Notes of the Bank in payment of Duties + [sic] Taxes.
>
> ....
>
> This decision will already have been communicated to the Officers of the Customs at Barbados but it will nevertheless be advisable that Sir G. McGregor [sic] should be instructed immediately to revoke any authority that may have been given either at Barbados or in the other Islands under his Government, relating to the receipt of the Banks Paper [sic] in payment of Duties ....
>
> [initialled] GWB" [272]

On Nov. 30, 1837, the Colonial Office circularized these new instructions, almost verbatim, judging from an extract of the circular extant in the PRO, signed by Lord Glenelg. A private complaint was lodged with the Chancellor of the Exchequer by the Chairman of the bank, in March 1838. {273} But according to the secretary of the bank it was not even "... favoured with a reply.- This note was marked private which will account for its not being found, or its contents being unknown at the Treasury". The copy submitted a second time has survived in the PRO.

The Treasury conceded support for the Colonial Bank notes only when a new Chancellor of the Exchequer succeeded Spring-Rice. This implies that there may not have been any imperial or economic grounds for refusing the support for Colonial Bank notes. It adds credence to the presumption that the Treasury's lack of support for the bank may have been more a deparmental--or even personal--prejudice, than rational policy.

The bank took up its case with the new chancellor, the Rt. Hon. J.F. Baring M.P., on Jan. 14, 1840. The original letter is extant in the PRO.

> "When Her Majesty's Government granted a Charter to the Colonial Bank perimitting it to issue notes and insisted that one fourth of its nominal Capital of two millions, or £500,000, should be actually paid up previous to its commencing business (which stipulation they were informed had been complied with) the Directors considered that Her Majesty's Government could not entertain a doubt of its solidity + [sic] although not expecting that Her Majesty's Government would actually authorize their Officers in the West Indies to receive the Notes of the Colonial Bank they did not anticipate that it would have been deemed expedient to send a Circular to the Governors of the West India Colonies cautioning them that those Notes were not a legal tender (which was done at the close of the year 1837 by the Colonial Secretary at the desire of the then Chancellor of the Exchequer Mr. Spring-Rice) which notice was perfectly unnecessary as it was well known to every one in the West Indies that the Notes were not a legal tender + its only effect (perhaps not intended) was to throw a discredit upon their character, shaking the confidence of those who were disposed to receive them + confirming the timid in their determination to refuse them--nor were the Directors prepared for the... instructions... sent out by the Commissioners of Customs absolutely prohibiting the receipt of Colonial Bank Notes in payment of Duties." [273]

The Treasury minutes of Jan. 24, 1840 recorded a long discussion of the complaint, excusing the past and ending with the

following resolution, favourable for the first time to the bank.

> " ... such an absolute prohibition would appear to be at variance with the ordinary practice in regard to the receipt of Notes of local Banking Establishments by Collectors of the revenue under their Management...." [273]

## (3) THE ATTITUDE OF THE COLONIAL GOVERNMENTS

Colonial government in the West India colonies was broadly divided into three levels of administration:

-- the public officers,

-- the local legislatures, and

-- the governors.

The majority of those in colonial government by virtue of being (either appointed or elected) leaders in their community were sophisticated enough to be above the opposition to banking arising from ignorant prejudice. But precisely because they were prominent members of the colony, they stood to profit from a local bank, rather than one based in London. It was, therefore, their attitude, influence and, more often than not, their vote which determined the lack of support the Colonial Bank received from colonial governments. The power of this pro-local bank lobby was most effective in the second level of colonial administration--the local legislatures. Their effect, upon the other two levels, was limited to group pressure and the spotlight of public attention. The latter was, in turn, more effective

with the governors than the public officers. Only the approbation of HMG in the form of a Royal charter and the support of the Colonial Office were counterbalances to such local pressures. The previous section referred to the success of the Colonial Bank in getting the governor-general of Barbados to authorize the Commissioners of Customs in Barbados and Grenada to accept Colonial Bank notes. It was, however, also noted that HMG support was far from unanimous. Therefore, this counterbalance was more effective with the first level of administrators than it was to an independent-minded and discerning governor. The following pages will focus attention upon the support, reported by the branches, from public officers, and the opposition encountered from the second and third levels of colonial government. The opposition to the Colonial Bank by the local legislature and the governor of Demerary, in particular, has survived in the PRO, the contemporary newspapers, and the archives of the bank. The case history of such an opposition can, therefore, be seen from a wider perspective.

## (i) PUBLIC OFFICERS

No extant report in the Colonial Bank archives blamed a public officer for being opposed to the bank. It is clear that this was not a self-protecting cover-up by managers. In Demerary, the manager, Peter Rose, had no hesitation in reporting his clash with the governor, Sir J. C. Smyth. In a report sent to London, for example, on March 24, 1838, Rose distinguished

between the attitude of the governor and that of the public officers towards the bank.

> "The Notes of the Colonial Bank have not hitherto been received in payment of Duties and Taxes--arising principally from the hostility of the late Governor Sir J. C. Smyth--the Colonial Receiver being guided by His Excellency's wishes would not run the risk of giving offence--The Notes of the Guiana Bank have also been refused in payment of Duties and Taxes--the reason of the Monthly Exchange with the Registrar, is in consequence of that Officer being obliged to pay into the Receiver General on the first day of each month, the amount of fees received by him for the preceding Month--and it was a convenience to that Officer and the Bank to make the Exchange monthly--Mr. Wilday the Registrar is very friendly to the Establishment and does all he can to accommodate me--and if it depended upon him he would receive all deposits paid into Court in our Notes." [274]

Credit for having fostered such a favourable attitude among public officers is, partly, due to the banks. The banks were not averse to currying such favourable attitudes. The agents in Berbice, on Dec. 28, 1838, defended their having, in contravention of the bank rules, opened a small deposit account by revealing that

> " We would not have granted the receipt $7.33 favor [sic] E. Berry but for the circumstance of his being a poor man in the Police who is anxious to have all his savings lodged here." [275]

There is no evidence extant of any corrupt motive or benefit in this isolated case. Only the fact that it was done in contravention of the rules and that it was unprecedented raises questions. A closer look at the ledger of the Berbice agency, summarized in Diagram 7, furthermore, shows that this poor

DIAGRAM 7
A DEPOSIT ACCOUNT
IN
THE BERBICE LEDGER
COLONIAL BANK, 1838
IN DOLLARS

Edward Berry, Superintendent of Police
Deposit Account

| Date | Folio | Debits | Amount | *** | Date | Folio | Credits | Amount |
|---|---|---|---|---|---|---|---|---|
| 1838 | | | | *** | 1838 | | | |
| Dec. | | | | *** | Oct. | | By | |
| 31 | 183 | To Cash | 44.00 | *** | 8 | 147 | Cash A/C | 22.00 |
| | | | | *** | Nov. | | | |
| | | | | *** | 6 | 161 | DO | 14.67 |
| | | | | *** | Dec. | | | |
| | | | | *** | 8 | 173 | DO | 7.33 |
| | | | 44.00 | | | | | 44.00 |

policeman was, in fact, the Berbice superintendent of police. The agent's description of this account as being Mr. Berry's savings, however, appears to be substantiated by the three credit entries beginning in October and the total being withdrawn, in cash, on Dec. 31. Unlike this case, the encouragement given by the Colonial Bank to the public officers in charge of the island treasuries is well documented. The opposition of H.M. Treasury to the acceptance of Colonial Bank notes as payment for taxes, etc., and the lodging of public funds at the bank were cited in the previous section. Yet the extant ledgers for Antigua and Berbice show that the public officers in these colonies lodged their funds with the respective branches as early as 1837 and continued to do so, even, in 1840. This is summarized in Table

10. The table portrays these funds as having been deposited in the name of the public officer, albeit, in his official capacity. It is also clear from the ledgers that these officers maintained private accounts. By itself, of course, this evidence appears, once again, to be innocent. It merely suggests that these officers were favourably disposed towards the bank but kept their private and public business apart. The correspondence, in the Antigua letterbook, relating to these accounts is once again suggestive but not conclusive. In his report to the superintendent of branches, on Feb. 5, 1838, the manager in Antigua, knowing the bank's reluctance to increase liabilities by accepting unneeded deposits, sought permission to open one for the colonial Treasurer :

> "I hand you enclosed the Copy of a Note received from our Treasurer on the subject of opening a Private Account for him, which I submit for your consideration, and have only to observe thereon that I consider him highly worthy of credit, not only as being the Possessor of a valuable Estate and other Property, but as a Gentleman of the highest probity." [276]

Although the treasurer, Mr. Musgrave, already had a cash credit account (since 1837), permission was needed again because of the inherent difference between the cash credit accounts and the deposit accounts. The former constituted a loan by the bank and was an asset. The latter was the liability the Colonial Bank did not want. The manager had to justify his intent to accede to the wishes of Mr. Musgrave. The reasons cited were once again innocuous. A much more revealing correspondence is extant, from

TABLE 10
PUBLIC FUNDS DEPOSITED
WITH THE COLONIAL BANK
IN ANTIGUA [277] & BERBICE [278]
1837-1840
DOLLARS

| Year | Folio | Name | Capacity | Type A/C | June Bal | Dec Bal |
|---|---|---|---|---|---|---|
| ANTIGUA | | | | | | |
| | | Anthy | | | | |
| 1837 | 149 | Musgrave | Treasurer | Cash Cr. | 234.55 | 12655.80 |
| 1838 | 149 | " | " | " | 17115.94 | nil |
| | 167 | " | Personal | Cur.Dep. | 1268.42 | 558.02 |
| | 208 | " | " | Interest | * | 5482.29 |
| 1839 | 167 | " | " | Cur.Dep. | * | nil |
| | 208 | " | " | Interest | 5563.06 | * |
| | 208 | " | " | Demand | * | 5000.00 |
| BERBICE | | | | | | |
| | | Jn. | | | | |
| 1837 | 291 | Downer | " | Cur.Dep. | 1206.55 | 578.70 |
| | 321 | " | " | Demand | * | 400.00 |
| 1838 | 291 | " | " | Cur.Dep. | 506.23 | 431.17 |
| | 321 | " | " | Demand | * | nil |
| 1839 | 286 | " pp. | A.Sheperd Registrar | " | 34756.00 | 34756.00 |
| | 291 | " | Personal | Cur.Dep. | 1871.84 | 106.87 |
| | 321 | Sheperd | " | " | 36.67 | 424.01 |
| 1840 | 286 | Downer | pp | Demand | 27321.47 | 26756.67 |
| | 313 | Sheperd | Personal | Cur.Dep. | 940.34 | 3977.68 |

* in order of appearance:
opened Sept. 13, 1838
closed Mar. 15, 1839
closed Nov. 30, 1839
opened Nov. 30, 1839

opened Sept. 15, 1837
closed April - 1838

the same manager to the new superintendents, at a later date, April 16, 1840. The Colonial Bank's aversion to deposits had not changed and the manager once again was obliged to give just cause for his behaviour.

> "I have offered to take an additional $5000 from the Treasurer on a Deposit at Interest Receipt returnable on a Notice of 40 days and deem it a desirable thing for the Bank to cultivate a good understanding with that Officer. [underling mine] " [279]

An answer to the question why this was 'desirable' and how long this 'good understanding' had been 'cultivated' is contained in a confidential despatch extant in the PRO, from the governor of Trinidad to the Colonial Office. Written in 1847 when the case in Trinidad had come to light, the practice, it is clear, had had a longer history. As stated earlier, neither the governor nor HMG regarded such 'cultivating' as being wrong or illegal--just as long as it was stopped. The governor's letter, below, is self-explanatory.

> "Private + [sic]
> Confidential
>
> Trinidad 21st. July 1847
>
> My Lord
>
> A matter has within the last few days come to my knowledge--which I feel it my duty to report to you at once.
>
> I have taken the liberty to state it in a confidential report--in order to avoid the publicity which an ordinary despatch might give + which in consequence might unnecessarily injure the character of a Public Officer.
>
> ...It appears that it has been the practice of the present Treasurer, Capt.[sic] Allen, + was also of his predecessor Mr. Walker, to lodge the larger portion of

whatever sum of money he might have in his possession (which amount I find has ranged from 1 to £ 20,000. the average being about £ 10,000 ) in the island banks--for which, as it has been represented to me, he has been in the receipt of a percentage.

As such a proceeding appeared to me on the face of it very irregular--I immediately enquired of the Col.[sic] Treasurer, if such was the case--he at once acknowledged it, stating that he had found the practice in existence, + had followed the course pursued by his predecessor without its striking him that it was improper--that the depositing the money in the banks, + accepting their notes instead of requiring + making payments in specie, was a very great convenience to the Public Officers, to the banks, + greatly amelinated [sic] the transaction of the general business of the island--but that as he took the notes of the banks, + deposited the monies upon his own responsibility, it was only fair that he should receive some remuneration for the risk.

Though this explanation appeared to me a sufficient one for the moment, I cannot acquiesce in the propriety of the proceeding-- + I determined to lay it before your Lordship for your opinion.

With such a view of the subject it may appear easy of settlement by simply ordering the discontinuance of such an arrangement--which indeed was immediately proposed by Captain Allen on his hearing my opinion of the matter....

...Should you conclude that the practice of the Treasurer receiving a percentage should be discontinued--as I presume you will-- I would propose that the arrangement with the banks should be continued not at the risk of the Treasurer--but on the Council's guaranteeing the Treasurer from loss....

I should add, that the monies paid into the banks by the Treasurer were always lying there available, + ready for use at a moments notice-- + much more secure than they would be in the Treasury where they would hardly be in safety.

I would also mention that I have always found Capt. Allen an efficient + [illegible] Public Officer, + most particular in the details of his office.

I have the honor [sic] to be
My Lord
Yr [sic] Lordships
Obedt.[sic] humble Servt. [sic]
[signed] Harris " [280]

The attitude of the Colonial Office also conformed with the governor's suggestions. The practice was improper and should be put to an end--but no blame or censure was to be accorded the public officer. These opinions were written on the back of the despatch above. The first comment is initialled JS--James Stephen; the second, RH--addressed by Stephen as Mr. Hawes; while the last bears the initials GY--The Colonial Secretary, Earl Grey.

> "27 August
>
> Mr. Hawes
>
> I presume that there is no ground for censuring the Treasurer for what has passed; although the continuance of this charge ought (I suppose) to be discontinued. That a Public Accountant in receipt of large sums of Public Money should be paid by a Bank a sum by way of indemnity against the risk he incurs by making them the depositories of the.. money wd. [sic] seem evidently improper....
>
> JS
>
> Aug.[sic] 28 I see nothing to blame in the Col.[sic] Treasurers [sic] conduct.... RH
>
> The practice was quite irregular + [sic] being muniferthy [sic] must be put an end to witht.[sic] admittg.[sic] any damage or compensatn. [sic] on the part of the Treasurer to whom however under the circumstances no blame quietly attaches--give the directions suggested by Mr. Stephen.-
>
> GY " [280]

A reply containing the above resolution was sent back to Lord Harris in Trinidad, on Sept. 7, 1847. {280}

With this new perspective, the accounts in Table 11--particularly that of Antigua, where an account bearing interest existed--take on a different meaning. In Antigua, the cash credit account opened by the treasurer, in 1837, constituted a

loan made to the treasury. The accounts opened after 1838 are deposit accounts--Folio 08 bearing interest. These accounts were opened despite the circular (cited earlier), H.M. Treasury had prevailed upon the Colonial Office to circulate on Nov. 30, 1837. Furthermore, permission to open these accounts were sought, and, presumably, given by the superintendent. Had the Colonial Bank provided an incentive to the public officer to cultivate a favourable attitude to the bank, where H.M. Treasury was not so disposed ? It appears that in Trinidad at least, this had been the case. The opposition of the local legislatures and governors, in the colonies, had been due to their personal interests. They stood to gain from a local bank. The attitude of the public officers appears to have been equally moved by their self-interest--an opportunity to earn a personal profit from the public funds in their trust. How much this profit could be was outlined in a second despatch, on Oct. 16, 1849, from Lord Harris to the Colonial Office, who in turn, sent it to the Treasury, who had asked for it. The Colonial Bank did not seek deposits and, therefore, offered very low rates of interest--between 2-3 % depending upon the customer and the period of the deposit. The actual sums paid to Capt. Allen and his predecessor by the Colonial Bank and, later the West India Bank, are summarized in Table 11, below. Capt. Allen was allowed £248„15„11 as interest for his own personal money placed together, in the account, with the public funds. The balance, however, he was ordered--despite Earl Grey's comments earlier--to

TABLE 11
INTEREST FROM THE PUBLIC FUNDS
PAID TO THE TREASURER
IN TRINIDAD
1837-1847 [281]

| Colonial Treasurer | Paid by the Colonial Bank | Paid by the West India Bank |
|---|---|---|
| James Walker 1837-43 | $218.63=£ 45„10„11 | |
| Capt. Allen 1843-47 | $2068.27=£430„17„ 9 | $1525.95=£317„18„ 1 |
| Total to Capt. Allen | £748„15„11 less his claim that 248„15„11 was interest for his own money placed with the Public Funds, leaving the balance £500"-"- to be paid back in instalments of £100"-"- per annum | |

repay the colony in instalments. It was futile to attempt to retrieve any sum from his predecessor. He was dead. No suggestion of wrong-doing was ever imputed to either the public officer or the banks. The explanation offered by Capt. Allen, that it had all been done in an open and fortright manner was accepted.

> " No use was ever made by me of the public monies, nor had I at any time an account with the Banks in any capacity of 'Colonial Treasurer' the percentage credited in my private account for the undrawn balance was a contingency common to every depositor. This balance was at all times available and as a weekly statement of the funds in my hands was made to the Governor, no concealment could take place respecting the amount.
>
> That such deposits actually existed was[sic] fully known, payments for the public service, Court Deposits and other accounts being constantly made by cheques on the Bank, and the weekly returns shewing [sic] in some instances a balance in favor [sic] of the Treasurer, demonstrated that the deposits did not exclusively consist of public money." [281]

Neither has the purpose of this discussion been to impute any wrong-doing on either of these parties. The aim of this section has been to show the favourable attitude of the public officers in the colonies to the Colonial Bank. The above discussion has merely identified one of the reasons for this favourable attitude. It was in the self-interest of the public officers to work closely with the bank--both in terms of convenience and pecuniary rewards.

## (ii) THE LOCAL LEGISLATURES

The colonial banker required the assistance and support of the local legislatures in order to be able to operate under their jurisdiction. The Colonial Bank charter had to be registered with the local judiciary bodies and its privileges recognized. In their response to the Board of Trade's enquiry about the terms of the Colonial Bank charter, the Colonial Office pointed out the need for a close working relationship despite the endowment of a Royal charter. The Colonial Bank charter needed the confirmation of the various local legislatures. The local legislature of Jamaica was one of the first to do so, in Dec. 1836. [253] Extant branch reports to London suggest that the main opposition to the Colonial Bank in the colonial government was centered in the local legislatures and/or the governors. The local legislatures were made-up of prominent leaders of the colony. Because of the relatively closely knit colonial society, these individuals (or their close relatives) were often,

coincidentally, the commercial leaders of the colony--planters, merchants, and/or retailers. Not lacking in the knowledge or even experience of banking, they did not necessarily need to rely upon outsiders to provide them with banking services--especially, if it meant a large share of the profits were to be repatriated back to London. An insight into the independence and the colonial patriotism of the islanders has already been seen in Section (1). The local legislature provided such individuals with a platform to voice their antipathy towards the Colonial Bank as well as an instrument to oppose it. The Jamaica Watchman's July 9, 1836 attack upon the Colonial Bank, cited earlier, depicted the hostility of the local legislature to the establishment of the bank. The refusal of John Irving, M.P. and the bank to be dissuaded, by the Jamaica legislature, was branded as despicable arrogance by the newspaper. {225} An extract from the minutes of the 'Legislative Council of St.Lucia' reveals the opposition the Colonial Bank faced when it needed the support of the local legislature. As late as March 1850, when the bank applied for a subsidy to withdraw the cut-money of St.Lucia, it was met with such speeches in the legislature:

> " The Honourable Mr. Catter was of opinion that it would be highly inexpedient to withdraw the Cut Money, and as for the Bank, he considered that much injury had been done to the Colony, by its establishment, they should have nothing to do with the Bank. The Island was much richer before its establishment." [282]

In Demerary, the local legislature combined forces with the governor, Sir J.C. Smyth, to oppose the Colonial Bank. The next

section will discuss the passage of an ordinance, promoted by the governor, to incorporate a rival bank, giving it support and protection, while continually hampering the operations of the Colonial Bank. It is worth preempting that discussion, however, to see an example of how a local legislature could help to do so. The local bank was prohibited from circulating its notes, pending HMG approval, giving the Colonial Bank a competitive advantage. The governor supported evasive tactics by the local bank to circumvent HMG prohibition, while placing as many obstacles in the path of the Colonial Bank note circulation as he could. The manager of the Colonial Bank in Demerary, Peter Rose, formally petitioned the governor to take action against the "illegal" issue of notes by the local bank.

"The Memorial of Peter Rose as Manager of the Colonial Bank.-

sheweth [sic]

....

Your Memorialist has taken leave to lay before Your Excellency the foregoing facts for Your information + [sic] respectfully submit that claiming as he does the advantages of His Majesty's injunction to Your Excellency as contained in the 45th Section of the Charter of the Colonial Bank he conceives that such measures ought to be adopted by Your Execellency as will prevent the issuing of the Notes in Question until His Majesty's Sanction of the Ordinance 82 shall have been obtained.-

All which is respectfully submitted

(signed) Peter Rose

Demerary 1 March 1837 " [283]

This petition placed the governor on the spot, obliging him to

make some form of response. Because of the strength of the bank's case, the governor would have had no choice but to comply with the appeal for protection--despite his avowed support for the local rival. The local legislature provided the governor with a means of manoeuvering out of this tight corner. The governor submitted Peter Rose's petition to the legislature. Technically, the petition had been addressed to the governor and had nothing to do with the legislature. The governor had to deal with it. The legislature, however, resolved that neither they nor the governor should interfere in the matter. This was synonymous with a rejection of the Colonial Bank appeal. An extract of the minutes of the legislature, on March 1, 1837, is extant in the PRO. Both Peter Rose and the chairman of the local bank were members of the legislature--though both abstained, in this case, due to their obvious conflict of interest. The minutes show how those members, allied with Rose, sought to return the onus of responding to the petition back to the governor. They were defeated by the majority opposed to the Colonial Bank.

"

Copy

Extract from the Minutes of the
Proceedings of the
Honorable [sic] The Court
of Policy of the Colony of
British Guiana at its
Ordinary Assembly held at
Guiana Public Buildings,
Georgetown, Demerary
Wednesday 1st.March 1837
(after prayers)

The Governor stated that before the business of the day was entered upon He was desirous of drawing the attention of the Court to a Memorial he had just received from the Agent of the Colonial Bank, He was anxious to take the sense of the Court as to whether the fact of the Promissory Notes being issued by the Gentlemen whose signatures are attached to it, can in the opinion of the Court, be construed into a violation of the Ordinance 82; and if so, what steps they would recommend should be taken.-

The Honorable [sic] Mr. Rainy seconded by The Honorable Mr. Arrindell moved the following Resolution,-

> Resolved that under all the circumstances of the case it does not appear incumbent on the Court to offer any opinion to His Excellency, in the matter.

The Chief Justice seconded by the High Sheriff moved that all the words from the word 'Incumbent' be omitted and that there be inserted the following; ' expedient to the Court to recommend any interference in this matter'.-

The Court divided

| For the Amendment | Against it |
|---|---|
| The Honble [sic] Mr. Waterton | Honble.-Rainy [sic] |
| Sheriff | " Arrindell |
| Attorney General | |
| High Sheriff | |

And the Amendment was carried + [sic] the original lost--The Honbles. Messr. [sic] Rose and Croal declined voting.-

The Attorney General declared his opinion to be that any parties injured by the issue of the Notes in question, had their remedy at large--an injunction to put a stop to the negociation [sic] of the paper-

a true Extract
(signed) H.E.F. Young." [284]

## (iii) THE COLONIAL GOVERNORS

Of the three levels of colonial government, the attitude of the governors are the most difficult to explain. This was, of course, partly due to the governors themselves. But

it no doubt was also due to the social position the governor held in the colony and the close scrutiny he received from the colonists as well as HMG. The attitude of the former was clearly opposed to the Colonial Bank, while that of the latter was, at best, divided and otherwise unsympathetic. The public officers, in contrast, would have found it easier to escape such public attention.

The support for the Colonial Bank notes by the governor-general of Barbados has already been cited. Without access to the Barbados records, it is impossible to attribute any further explanation for this. The support, on the other hand, of the governor and, because of him, the legislature of St.Lucia, in 1837, (the opposition cited earlier was in 1850--perhaps due to such incidents) for using the bank as a depository [285] for public funds (just before the Colonial Office circular of Nov. 30, 1838) is explained by an entry in the minutes of the committee for general purposes, Aug. 2, 1837.

> "The Secretary laid before the Committee a Note which had been addressed by Sir Dudley Hill Governor of St. Lucia to Mr. McQueen, stating his desire to have Deposits made in the Branch of the Colonial Bank at that Island by the Treasurer there in order that He, Sir D. Hill, might be able to draw the Cash in this Country while he remained here--" [286]

Clearly this was still the case, in 1838, since the despatch reporting the ordinance {287} passed by the St.Lucia legislature was written by a military officer, acting for the absent governor. Even in this case, the support from the governor was

based upon self-interest. He needed a convenient means of drawing upon the colonial funds, in London. It is also interesting to note, in passing, that when the St.Lucia legislature placed the funds on deposit, the Colonial Bank declined the allowance of interest, on the grounds that the funds were always on call. No incentive was needed to attract this deposit.

Of all the levels of colonial government, the governor was also the least susceptible to the influence of the Colonial Bank. This was partly due to the public attention directed at the governor who could not have been seen to be supporting foreign mortgagees against the colonists under his charge. Lack of overt support, however, implied an impartial neutrality and did not necessarily require opposition. When the fear of public censure coincided with the self-interest of the governor, as it did in Demerary, neutrality was more and more meaningless. The governor of Demerary, Sir J.C. Smyth, had a vested personal interest in the profits of the local bank. He and his family were shareholders. [287] The case in Demerary is well documented. The Demerary letterbook, contemporary newspapers, and the protests of the Colonial Bank to the Colonial Office extant in the PRO, are a fecund source-material to study the governor's opposition. For example, it is clear that the opposition was not directed at Peter Rose, the manager, personally. He was well known in the colony and had been recommended for the office by both McQueen and McChlery. [288]

In his sketch of British Guiana, the departing Governor Light, in 1848, described Mr. Rose as having incurred large debts from an estate he had 20 years before. Clearly, Rose had been in business in the colony before 1828. Neither had these debts diminished his commercial standing in the colony. Before joining the Colonial Bank, Peter Rose had been in partnership with one of the most prominent businessmen of the colony. An announcement in the Royal Gazette for Saturday, April 16, 1836, gave notice of the voluntary dissolution of the partnership of Peter Rose and John Croal, of Plantation Lima. [289] John Croal, incredible as the coincidence is, was to become the first chairman of the local bank. [290] John Croal's standing in the colony can be seen from his having served as the assistant commissioner of compensation for British Guiana. [291] That there had been no dispute or ill-will that had caused the dissolution of the partnership is clear from the fact that Rose and Croal remained friends. When the latter retired--due to ill health--from the British Guiana Bank, he opened an account with the Colonial Bank. A letter of credit, for example, exists in the Demerary letterbook, dated Nov. 24, 1837, drawn on the Colonial Bank in Barbados, that is indicative of this cordial friendship. {292} It is, furthermore, clear, from the governor's own admission, that he had a personal interest in the establishment of the British Guiana Bank. He and his family had become shareholders in the local bank. When the ordinance to incorporate the British Guiana Bank was passed by the local legislature, the newspapers carried the text of the

governor's speech congratulating the colonists in establishing the grounds for their freedom from the European mortgagees. He ended his remarks by confirming, in public, that he had also subscribed to the capital of the local bank. [287] With such a firm interest in their rival, the Colonial Bank could expect no support from the governor. Furthermore, because of his political and bureaucratic powers and influence, as head of the colony, the Colonial Bank was defenceless against him. The only recourse the Colonial Bank had was to circumvent him and appeal to HMG and, particularly, the Colonial Office, to whom the governor was answerable. But as will be seen, here, even this was not very effective. A private letter, for example, is extant in the PRO from the Colonial Undersecretary of State, Sir George Grey--favourably disposed to the Colonial Bank--to the governor, dated Nov. 1, 1836, suggesting that though Lord Glenelg (the Colonial Secretary) could not say anything officially, the governor was privately urged to be guarded in the blatant support he had shown the British Guiana Bank. [287] The resolution to approach Sir George Grey for his intervention, recorded in the minutes of the court of directors, on Oct. 27, 1836, has already been cited. The reasons for such extreme measures by the directors to try to stop the governor can be understood by looking at the extent of damage the governor had inflicted upon the bank. An entry is extant in the court minutes of May 18, 1837 instructing the secretary to outline, for HMG, these damages. {293} Fortunately, a copy of this letter, drawn up by the solicitor, also dated May

18, 1837, and sent by the Colonial Office to the Board of Trade is extant in the PRO. Calling upon HMG for intervention against the opposition shown by the governor,

> " The Directors of the Colonial Bank beg therefore respectfully to submit to Your Lordship that such instructions should now be transmitted to the Governor as may leave him without excuse for any longer opposing an Establishment which has the sanction of His Majesty's Royal Charter.-" [294]

the directors specifically made three charges against the governor:

CHARGE ONE

> " The Governor of Demerara [sic] gave his public sanction to the formation of the British Guiana Banking Company after he had notice of the Charter granted to the Colonial Bank, himself taking the lead in subscribing for Shares, and it is quite evident that the establishment of that Company was intended in direct opposition to the Colonial Bank." [294]

CHARGE TWO

> " I am directed respectfully to suggest to Your Lordship that when all the circumstances connected with the establishment of this Company [i.e., the British Guiana Bank] are considered, it will be clear that the parties who have issued these Notes ["... by certain of the Directors of the British Guiana Banking Company..."] are acting with the sanction of the Executive Government in Demerara [sic], + [sic] that in giving that sanction the Governor of that Colony is disregarding altogether the spirit of Your Lordship's Circular Letter dated 31 Aug: [sic] 1836--which prohibited the Executive Governments in the Colonies from permitting any Act, Ordinance, Proclamation or Regulation to come into operation in the respective Colonies, relating amongst other things to the Circulation of Promissory Notes or other paper, either by the Local Governments or by any Corporate Bodies or Individuals, without having first received His Majesty's Sanction, and that he is setting at defiance the privileges granted by the Charter of the Colonial Bank, + the Injunction which that Charter contains to all the Governments in the Colonies to recognize + give effect to its provisions.-" [294]

CHARGE THREE

> " : At a subsequent period the Governor expressed his intention not to permit the Circulation of the Notes of the Colonial Bank on the ground of their falling within the prohibition contained in Your Lordships Circular of the 31st. Augt. [sic] 1836, altho [sic] he must have known that they were not within the scope of that Circular, and when Your Lordship was pleased at the request of the Colonial Bank to give notice to the Colonial Governors that the Circular did not affect the Circulation of the Notes of the Colonial Bank the Governor of Demerara did not give publicity to that notice or take any step for removing the erroneous impression his former declaration must have created...." [294]

Lord Glenelg, in turn, sent these charges to the governor for his reply. This reply is extant in the PRO. [295] The governor vehemently denied the charges in his reply, dated Demerary, July 19, 1837. The Colonial Office forwarded a copy of this reply to the Colonial Bank. An answer appears to have been written by the chairman, John Irving, but it is not extant. A copy of the governor's letter and that of the chairman were sent, on Oct. 2, to Peter Rose. His reply, prefaced with "Mr. Irving has so ably replied to the governor's Despatch that there is little for me to add" [296], is extant in the Demerary letterbook.

The following pages will compare the governor's defence of his actions and the countercharges made by Rose. Placing these extracts together and complementing them with other corroborating evidence reveals both the nature of the opposition to the Colonial Bank and the degree of the governor's complicity.

Governor: " The best and clearest refutation of these erroneous assertions, I beg respectfully to observe to Your Lordship is a reference to dates.

In September 1829 a plan was submitted to the Court of Policy by a Gentleman of the name of Robertson for the establishment of the Guiana Bank.

In August 1836 the same Individual again addressed the Court of Policy upon the subject.

In October 1836 the subscribers to a Deed of Settlement addressed myself and the Court of Policy praying for an Ordinance to incorporate a Bank.

On the 11th November 1836 the Ordinance incorporating the Guiana Bank passed the Court of Policy.

On the 7th December 1836 I received Sir George Grey's letter of the 1 November 1836 as also an authenticated copy of the Charter granted to the Colonial Bank. I beg to refer Your Lordship to my Despatch of the 8th December 1836 No. 257. From a reference to the above dates I beg respectfully to observe to Your Lordship that it appears that so far back as in the year 1829 the formation of a local Bank had been under consideration in this Colony; and further, that the Ordinance incorporating the British Guiana Bank had been enacted by myself and the Court of Policy, and had been transmitted, for His Majesty's approbation, nearly one month previously to the receipt, in this Colony, of any official document connected with the Colonial Bank." [295]

Rose: " Sir James Carmichael Smyth in the fourth paragraph of his Despatch [i.e., extract above] attempts to refute the charge of partiality brought against him by reference to dates--here also he has been most unfortunate.

He admits that the application made by Mr. Robertson to the Court of Policy was in August 1836-. I will here quote his Excellency's sentiments on the occasion, placed on the Minutes of the Court of Policy as the answer given by the Govt. Secy. [sic] to Mr. Robertson's application--'The advantages to be derived to this Colony from the proposed general West India Bank have always appeared to His Excellency very problematical and as not to be compared with the benefits which the Inhabitants of British Guiana would receive from the Establishment of a Bank the operation of which would be confined to this Province'--On the 25 Oct$^{r}$.[sic] following a Petition was presented to the Court of Policy from the Directors of the British

Guiana Bank, praying for a Charter in terms of the Deed of Settlement which accompanied the petition. On the very same day His Excellency introduced a Bill for Incorporating the British Guiana Bank which was read a first time; reference to the Minutes of the proceedings of the Court of Policy transmitted to you [i.e., the directors of the Colonial Bank in London] on the 9th December 1836 will confirm this. His Excellency pretends to have received no official information until the 7th December following--yet it appears from the following Extract from the Minutes of the Court of Policy of the 24th March 1836--that Mr. Irving's Letter to Mr. Rainy was read and placed on the Minutes that day--'24 March 1836--The Honble. Member George Rainy brought up a Letter from John Irving, Esq.[sic] Chairman of a Meeting held in London for the purpose of establishing a Colonial Bank in that City, enclosing a Prospectus, which Letter and Enclosure having been read, the Honble. Member laid them over to the Court, stating that he did not mean to propose any motion founded thereon further than that these papers be entered upon, the Minutes--ordered accordingly.' The Letter is dated London 15th. January 1836 and signed by John Irving. In September 1836 Messrs. McQueen and McChlery waited upon Sir J.C. Smyth and gave him a copy of the Charter--on the 14th October 1836 I presented a memorial to Sir J.C. Smyth in the name of the Colonial Bank attaching thereto a printed copy of the Charter--On the 15th October the Government Secretary by desire of the Lt. Governor acknowledged receipt of the memorial--on the 17th October I addressed a Letter to the Lt. Governor on the same subject and on the 19th another Letter--copy of the Memorial and correspondence connected therewith was forwarded to the Court of Directors on the 15. 18 and 25th October. On the 20th October I received the authenticated copy of the Charter and exhibited the same to His Excellency a few days thereafter--It was lodged in the Registrar's Office on the 24th October for the purpose of being enrolled as appears by the following copy of the Registrar's annotation on the Charter 'Recorded in the Book of Records No.30 Vol 1 Fol 675 et seq remaining in the Registrar's Office of the District of Demerary and Essequebo British Guiana, this 24 day of October 1836 Lord Attestor' signed 'Charles Wilday'-- His Excellency states that the Ordinance Incorporating the Guiana Bank had been enacted by the Court of Policy and transmitted for His Majesty's approbation, nearly one month previously to the receipt of any official Document connected with the Colonial Bank. The Ordinance Incorporating the British Guiana Banking Company was passed on the 11th November,

> the authenticated copy of the Charter was enrolled in the Registrar's Office on the 24 October previously — being 18 days preceding the passing of the Ordinance--so much for His Excellency's correctness." [296]

There is substantial other evidence extant to suggest that the governor did not behave impartially or straightforwardly. The governor's speech, congratulating the colonists on the establishment of their own local bank, cited earlier, is only one example. Two other such biased speeches made by the governor, that appeared in the newspapers, are cited in the Appendix. {297} A series of letters, exchanged between the governor and Peter Rose, in October 1836, printed in the Royal Gazette of Nov. 8, 1836, are also extant. These letters reveal the bureaucratic manoeuvers used by the governor against the Colonial Bank. Peter Rose had approached the governor well before the local legislature had incorporated the British Guiana Bank. In his petition dated Oct. 14, 1836, Peter Rose had outlined the context under which the Colonial Bank had been endowed with a Royal charter and invoked its protection by the governor. {298} By the end of October, the governor had been officially presented--via the Registrar's Office--with an authenticated copy of the Royal charter. The right to be protected against a new competitor, that Rose had assumed the charter had granted the bank, needed confirmation from London. An impartial governor, unable to ascertain the veracity of Rose's claims, would have, surely, tabled any solicitations to incorporate a local bank until he had checked with London. The actions of the governor were,

manifestly, otherwise. He stalled for time, manoeuvering until the ordinance was passed in the local legislature. The governor refused to recognize Rose as the legitimate representative of the Colonial Bank and when Rose offered to present him with credentials in person the governor avoided meeting with him. Forcing Rose to obtain a formal power of attorney cost him time, enabling the governor, in the meanwhile, to proceed with the incorporation of the local bank on Nov. 11, 1836. [299] These stalling tactics were possible because of the governor's bureaucratic power, against which Rose had no defence. This emerges from the reply he sent to Rose's petition. {300} Rose, at first, parried this challenge by arguing that he had sufficient authority with him and could not present them to the governor as long as the governor had no time to meet him. His reply dated Oct.17, 1836 is also cited in the Appendix. {300} The above letter succeeded in securing the interview with the governor that Rose had not been accorded before. But it did not change the attitude of the governor. His reply, the day after the interview, was still strongly worded and defiant in its refusal to support the Colonial Bank. {300}

Unfortunately, the letterbook for 1836 is not extant to ascertain how Rose reported the opposition of the governor to the directors in London. The court minutes recorded a report dated Nov. 9, 1836. [301] This must have contained the Nov. 8 edition of the Royal Gazette, with its correspondence referred to above. At their meeting of Dec. 8, 1836, the directors consulted with their

solicitor (Joesph Maynard, of Crowder & Maynard) and resolved that:

> "He [the solicitor] was also instructed to draw up a summary of the correspondence between Mr. Rose and the Governor of Demerara [sic] on the subject of the British Guiana Bank....
> The Secretary was instructed to forward the above summary or its substance in a letter to the Colonial Office." [302]

This may well have been Rose's suggestion to the court. His last letter to the governor {300} conceded his impotence in influencing him. The only recourse left, Rose wrote, was to submit the matter to HMG. Rose took the favourable attitude of the Colonial Office for granted. Furthermore, time was against the Colonial Bank. Even the earlier circular--favourable to the Colonial Bank--dated Nov. 1, 1836 arrived too late to influence the passage of the ordinance. But even if it had arrived earlier, Rose had serious doubts whether it could have served any purpose. The publication of such circulars was the perogative of the governor. Rose reported to the directors that the governor had withheld publication of the Nov. 1 circular until promoters of the British Guiana Bank had succeeded in acquiring sufficient public signatures on two memorials, to HMG, on behalf of the local bank. His report is extant in the PRO. {303} The Royal Gazette, on Dec. 16, 1836, also mentioned these memorials and thanked the colony's good fortune for having incorporated their own bank. Rather than the colony's good fortune, the Gazette might perhaps, more accurately, have thanked the governor. His behaviour had come as surprise, even to the Board of Trade, to

whose attention it was brought. {305} The Colonial Bank had failed in its attempt to block the entry of a competitor, primarily because it had been out manoeuvered by the governor.

The success of the British Guiana Bank, however, was not complete. It had not yet been given a Royal charter and could not exercise those privileges only granted by a charter. H.M. Treasury insisted upon amendments to the British Guiana Bank ordinance before it would recommend it being given a charter--and the sanction, for example, to issue notes. The details of these negotiations with the Treasury will be discussed later. The issuance of notes was a competitive advantage the Colonial Bank still possessed vis-a-vis the local bank. The governor's support, however, once again enabled the local bank to overcome this handicap. The second charge, made by the Colonial Bank against the governor, was his support for these "illegal" notes. The governor denied it.

CHARGE TWO

Governor: " My reply to this part of Mr. Calvert's letter is a flat denial of the fact upon which all his reflections are founded. I was never consulted by any of the Directors of the Guiana Bank on the subject of the issue of the notes in question; and, however ridiculous it may appear, yet it is perfectly true that up to this day I not only never have had in my possession, but I have not even seen one of the notes complained of." [295]

Rose: " In the third paragraph [above] Sir James Carmichael Smyth states that he had never seen one of the British Guiana Bank Notes up to the date of his Despatch. His Excellency must have a very convenient

> memory. He acknowledges having received my Memorial on the subject dated the 1st. March--to this Memorial I attached one of the Guiana Notes--In my letter of the 18 March I forwarded the Memorial with Copy of a Letter from Mr. Secy [sic] Young dated the 8th March together with Minute [sic] of the Court of Policy--it does therefore appear extraordinary that Sir J. C. Smyth should assert on the 19th July that he had never seen any of the Notes of the Guiana Bank." [296]

Once again, the Colonial Bank letter of May 18, 1837 contains only the charges and no detailed evidence to support them. These are fortunately extant. An entry exists, for example, in the court minutes, dated May 1, 1837, {305} revealing that the Colonial Bank had forwarded evidence received from Rose on to the Colonial Office, the Chancellor of the Exchequer, and the Board of Trade. This letter, with its date erroneously recorded as May 5, 1836 instead of 1837, is extant in the PRO. Attached to it is a lengthy letter from Peter Rose to the court--dated Feb. 28, 1837. It summarized the background to the British Guiana Bank's issue of notes, proving their irregularity, but being unable to show a direct role played in their circulation by the governor.

"

Colonial Bank
Demerary 28 February 1837

Sir,

> I take the earliest opportunity of intimating to you for the information of the Court of Directors, that the Local Bank of British Guiana has commenced operations, and at the same time has in disregard of the restrictions by which they are precluded, from issuing Notes until their Act is sanctioned by His Majesty's Government--resorted to a device, by which they evade that restriction; for they have already issued large numbers of Notes <u>payable at their Bank</u>

to Bearer on demand, for sums of One Hundred Guilders and upwards. [$1= 3 Guilders]

I beg to enclose you copy of one.

Copy

No.57 Demerary the 1st of February 1837

We promise to pay to the Bearer on demand at the British Guiana Bank
One Hundred Guilders
Demerary Currency

signed Jno [sic] Croal
Alexr." Glen
Chas. " Benjamin
Wm " Johnston
John Lane

The evasion is, that the Note does not purport to be made or issued by the Bank but by five Individuals. These Individuals however, are the Chairman and four of the principal Directors of the Bank, specified to be directors in the Act of Incorporation; the origin of the issue of these notes is contemporaneous with the commencement of the Bank's operations; they can be proved to have been first put into circulation by the Bank in payment of cheques drawn upon it by its customers, or otherwise in the course of its operations. The five individuals [sic] referred to as the makers of the Notes, have no ostensible or known connection in any other joint or common Business, except that of this Bank. The issue of Notes payable to Bearer on demand, by any Private Establishment or Individual; or by any other than the Public Authority, had been previously unknown in this Colony: proving it to be a proceeding not in the usual or customary course of the Business of this Country.

From these facts I think it impossible to avoid the conclusion that this issue, by whatever device, it may be attempted to disguise and colour it--is virtually and really made by and for account of the British Guiana Bank; and that the Directors of that Institution have thus resorted to an evasion which in effect violates the express restriction imposed by the 39th Section of the Ordinance which incorporated them.

If it be contended that at commonn law, and irrespective of the restriction of the Ordinance erecting the Bank, any one or more Individuals have the right of making and circulating their Notes to Parties willing to accept them in payment,--yet, if the facts I have stated, establish, as I conceive they do, the real, tho [sic] covert identity of the Bank with the issuer of the Notes, and thus prove that that Institution is attempting by a colourable device to do that which they are precluded from doing

directly and ostensibly in their corporate name,--the proceeding must be regarded as a violation of their Charter; which confers on them numerous and important privileges and immunities (not enjoyed at common law by any Private Association)--in the express condition of their renouncing a certain species of Business, which the wisdom of the Legislature deems it consistent with sound principles of Public Policy to discountenance.

....

I would only remark, that assuming even the identity of the Bank with the Note makers to be less undoubted than it manifestly is--it appears to be an indecorum and contempt of public authority in an Institution which is itself precluded from making Notes,--to issue and give circulation to the Notes of other private parties, in evident contravention of the spirit of the restriction which legally attaches to their own operations in that Department of Business, and it appears as much a violation of the spirit of the law to give circulation to an unauthorized Issue made by others, as to one made by themselves.- The words of the 39th Section are, ' Provided however, that this Ordinance, is as far as it authorizes the circulation of Promissory notes or other paper payable by the said Corporation, shall not come into operation until His Majesty's Sanction be obtained thereon.

....

I am,
Sir,
Your most Obedt.[sic] humble Servantg
[signed] Peter Rose

C. A. Calvert Esq. [sic]
Secy [sic] to the Court of Directors
of the Colonial Bank
London " [303]

These arguments, in fact, had not originated with Rose but had been put forward by a barrister-at-law in Demerary, William Arrindell--an ally of the Colonial Bank and a member of the local legislature. His letter, also dated Feb. 28, 1837, addressed to Rose is cited in the Appendix. {306}

So far the evidence submitted by the Colonial Bank only implicated the British Guiana Bank. The memorial, addressed by

Peter Rose to the governor, invoking his protection of the Colonial Bank charter was the basis upon which the bank felt it could fault the governor. There was a precedent, however impotent, set by the governor of Jamaica in Dec. 1836 (discussed earlier) in opposing the issue of notes by the local bank. Rose, once again, petitioned the governor to protect the Colonial Bank charter--hoping thereby to force the governor's hand. {307} Once again, however, the governor manoeuvered out of the tight corner. He referred the matter to the unsympathetic local legislature. The results have been cited earlier. The legislature resolved that the governor should not interfere in the matter. This resolution enabled the governor to argue, in his own defence, that there was nothing he could then do. [308] Nothing meant, in fact, support for the British Guiana Bank. This had not passed unnoticed at the Colonial Office. A draft of a letter from Lord Glenelq, corrected by him to make it a much more personal directive, is extant in the PRO, dated Feb. 15, 1838. Lord Glenelq noted the governor's defence, in his letter of July 19, 1837, that there was nothing he could do. But he continued,

> "I now think it right to state that altho'[sic] the creation + [sic] circulation by the Bank of the paper in question is not unlawful in the strict sense of that term, yet that it is a manifest evasion of the law. I must therefore request you to communicate to the Directors of the Bank that the immediate recall of any paper of this description from circulation.. must be considered as indispensable.... You I am well aware will be prompt on this as on every other occasion to concur in enforcing not a mere literal compliance with the law, but an observance of its spirit in the most large and liberal sense, and it is because I consider that the spirit of the Ordinance requires this

> stipulation to be made with the co$^{y}$. [sic] that I have addressed this communication to you." [309]

The extent to which the British Guiana Bank's audacity to continue circulating such notes depended upon the support of the governor can be seen in the local bank's hasty retreat soon after the sudden death of the governor, on March 4, 1838. [310] The chairman of the local bank wrote to the acting-governor that he had instructed the cashiers on April 7th, "... not to re-issue any of the Paper in question, but on its presentation to pay, and cancel the same and deliver it up to the Parties, whose signatures were thereto". [311] Without the support of Sir James, the directors of the local bank knew they could not continue to ignore the Colonial Office and/or the ordinance that had incorporated them.

A further demand that the governor and the local legislature should take immediate action against the "illegal" issue of notes, interestingly, came from the person who had helped promote the local bank. Hugh Robertson appears to have fallen out with the British Guiana Bank by 1838. This, no doubt, partly explained his new-found affinity for the Colonial Bank and antagonism towards his former institution. Notwithstanding this bias, his voice implicating the governor for neglect of his official duties should have been taken seriously (Robertson says) given his position. A copy of Robertson's letter is extant in the PRO. {312} The governor was not moved by such petitions. On the contrary, he continued to

support the British Guiana Bank.

The Colonial Bank charged that he went further than just support for their rival. He thwarted the free circulation of Colonial Bank notes. The governor, once again, categorically denied it.

CHARGE THREE

Governor: "I deny the truth of this assertion. Let those who make it, prove it. I never contemplated stopping the circulation of the Colonial Notes; and consequently never could have expressed that such were my intentions. Let Mr. Calvert state to whom and when and where did I so express myself ? " [295]

Rose: " In the fifth paragraph [above] of the despatch [sic] of the 19th July in answer to the statement 'that he had expressed an intention not to permit the circulation of the Notes of the Colonial Bank.- on the ground of their falling within the prohibition contained in Lord Glenelg's Despatch of the 31st. August- His Excellency denies the truth of the assertions, and calls on those who make it to prove it, and asks you to state to whom and when and where he did so express himself.- I trust I shall be able to satisfy the Court of Directors that His Excellency's Memory has again proved incorrect and has led him to charge me with asserting that which is untrue--The place where His Excellency made the Statement was in the Court of Policy in November 1836 on discussing the clause in the Bill for Incorporating the Guiana Bank, restricting that Corporation from issuing Notes until His Majesty's pleasure should be known--He then and there in his place in the Court of Policy stated that he would not permit the issue of Notes by the Colonial or Guiana Bank without an order from the Secy [sic] of State to that effect. Mr. Croal who was then a Member of the Court of Policy and Director of the British Guiana Bank confirms this by his Letter of 16th inst.[sic], sent herewith. Mr. Rainy and Mr. Arrindell two other Members of the Court of Policy now in England will I have no doubt corroborate the statement contained in my Letter of the 9th November 1836.-" [296]

Little further evidence than that already cited exists for the corroboration of Rose's charges against the governor. Diagram 4 has already cited the answers from Berbice and Demerary about the reception given to the Colonial Bank notes by the public officers. The Berbice agents had reported that, "the notes are not taken at all at any of the Government Public Offices here.... It would appear as if the Executives wished to thwart the operations of the Bank". [313] Rose, himself, reported that, "the notes are not received at any of the public offices--except the Registrar's and that is by a private understanding with Mr. Wilday--". [247] Even with the little supportive evidence, it appears plausible that the governor, who was so outspoken in favour of a rival bank, would have used any means at his disposal to thwart the operations of the Colonial Bank. Furthermore, a marked difference can be noted with the governor of Jamaica and the governor-general in Barbados. They had prevented the circulation of notes issued for the local banks while giving countenance to those of the Colonial Bank--see earlier discussions.

The opposition the governor of Demerary had shown the Colonial Bank had been extremely costly:

--the Colonial Bank had failed to deny entry to a competitor because of the support given to it by the governor;

--the Colonial Bank saw its monopolistic privilege to issue unlimited notes made void and had to watch the irregular notes of its rival circulate without any restrictions such as those imposed upon the Colonial Bank of payment in silver dollars; and

> --the Colonial Bank had to endure a severely limited circulation of its own notes because they were refused by the public officers in Berbice and Demerary under the jurisdiction of the governor.

Yet it is noteworthy to see that the Colonial Bank was disappointed in its appeals to HMG for protection against the governor. A most revealing note was penned on to the back of the governor's letter, to the Colonial Office, of July 19, 1837.

> "20 Septr. [sic]
>
> Transmit a copy of this letter to the Directors of the Colonial Bank expressing Lord G [sic] hope + [sic] persuasion that the Directors will concur with his Lordship in opinion that Sir C. Smyth has successfully repelled the accusations which have been preferred ag [sic] him.
>
> [initialled] JS" [314]

The key word, here, of course, being persuasion. James Stephen and the Colonial Office were favourably disposed towards the Colonial Bank. But even this government department, it appears, was not prepared to allow the Colonial Bank to implicate one of its governors. No direct evidence of this exists. No discussion, for example, is extant where such a deliberation--i.e., weighing the justice of the bank's case against the political exigencies of dressing down a colonial governor. Yet the words 'hope' and 'persuasion' suggest that the Colonial Office would have liked the Colonial Bank to concur with their interpretation and not make any more of the circumstances. In any case, whether justified or otherwise, this section has shown the strategic significance of being opposed by a governor who controlled the bureaucratic colonial government machinery,

including the local legislature, and who, it was more or less likely, the Colonial Office would not chastize, if it could avoid it.

It was inevitable that if there were unfriendly governors no doubt there were also those--such as those in Barbados and Jamaica--who were kindly disposed towards the bank. Besides Sir J.C. Smyth, the governor of British Guiana whose tenure was of strategic significance to the bank was Sir Henry Barkly (1848-1853). To the colonists and particularly the directors of the British Guiana Bank, things must have appeared to come full circle. Sir Henry was a director and large shareholder of the Colonial Bank! But as will be discussed in Chapter VIII, unfortunately for the Colonial Bank Sir Henry was also a debtor. But for his indebtedness to the bank, his political position would have been immensely valueable to the bank. The approbation of government might well have been a welcome to the colonial banker but the opposition of even one governor could mean a serious threat to its success.

# P A R T  C

## S T R E N G T H S  &  W E A K N E S S E S

## CHAPTER V

## THE STRENGTHS & WEAKNESSES OF A ROYAL CHARTER

### (1) RULES AND REGULATIONS IMPOSED BY HMG

The possession of a Royal charter implied the protection and support of its grantor. The strategic significance of such an approbation for the colonial banker was discussed in the last chapter. It was quite clear, for example, that a Royal charter neither guaranteed HMG protection nor its support. The Colonial Bank had failed to secure even a temporarily-strong monopolistic position for her operations. Neither was HMG prepared to patronize the banks, little less, support them as a lender of last resort. The guarantee of HMG patronage would have been an invaluable marketing strength. The assurance of a rescue, if things went wrong, would have reduced the strategic weakness, arising from exposure to the threats of colonial commerce. Furthermore, in order to be recommended for a Royal charter, H.M. Treasury demanded conformity to a series of rules and regulations* which, in themselves, limited the unconstrained ability of the banks to exploit their opportunities or deal with external threats. The acrid memorandum of the Chancellor of the Exchequer concerning the Colonial Bank

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*Footnote: Even before the Joint-Stock Banking Act of 1844 or the Joint Stock Companies Act of 1844 which included banking companies after 1856. For a detailed discussion see Edey, H.C. & Panitpakdi, P. "British Company Accounting and The Law" in Ibid., Littleton & Yamey, Studies in The History of Accounting, p.356-80

negotiations for a Royal charter, cited earlier, contained two Treasury resolutions relating to the incorporation of colonial banking companies. {315} On Nov. 11, 1831, the Treasury had discussed the need for consistent regulations for granting charters to banking companies. This was followed by another resolution on April 9, 1833 that such rules and regulations be formulated in consultation with the Home and Colonial Secretaries, as well as the Privy Council. In fact, the Privy Council and its Committee for Trade and Foreign Plantations (i.e., the predecessor of the Board of Trade) had already developed such regulations, in the process of reviewing charters referred to them. These, however, were not hard and strict rules to be applied to all banking companies. In hindsight, they appear more as guidelines that were matched with the exigencies of the particular case at hand. Certainly, in the case of both the Colonial Bank and the British Guiana Bank the rules were not stringently applied. Among the West Indian banks the rules were enforced in the case of the Union Bank of Jamaica, in 1839, and the West India Bank, in 1840. These will be discussed later in this chapter. The former was the subject of a letter extant in the PRO, from the Treasury to the Board of Trade. This letter manifested the increasing reluctance of the Treasury to make any more exceptions to their regulations.

"Treasury Chambers
14th February 1839

Sir

With reference to your letter of the 3rd ult$^{mo}$.[sic] transmitting the Draft of a Charter of 'The Union Bank of Jamaica', I am commanded by the Lords Commissioners of Her Majesty's Treasury to request you will state to the Lords of the Committee of Privy Council for Trade that on considering the Draft Charter for the 'Union Bank' of Jamaica it has appeared to my Lords that the precautionary conditions therein provided for are nearly similar to those contained in the Charter granted to 'The Colonial Bank'; and you will observe to the Lords of the Committee that altho' [sic] My Lords were induced, in consequence of the very peculiar circumstances under which the arrangements relating to the Colonial Bank had been made, and of the very large amount of the subscribed capital upon which that Bank was established, to assent to the terms of that Charter, they conceive that the case of the Bank now proposed is more analogous to those of other Banking Companies which have applied for Charters or Acts of Incorporation in the colonies; and accordingly that any Charter that may be granted in this instance should provide for the observance of these conditions to which it has been considered advisable by this Board that such Establishments should in general be subjected which have not appeared to be at variance with the conditions the Lords of the Committee are understood by My Lords to have approved.

I am Sir
Your very obed$^{t}$. Ser$^{t}$.[sic]
[signed: illegible] [316]

This letter is useful to quote because it affirms the points made above. The Colonial Bank charter was an exceptional case. Others would have to conform to the rules adopted by the Treasury. In order to make this clear to those seeking charters, the rules and regulations needed to be officially published. This was approved at the Treasury meeting of March 29, 1840.[317]

Because the Colonial Bank and British Guiana Bank charters had been negotiated before these regulations, a detailed discussion of them would only be tangential to the interests of

this thesis. Furthermore, a report is extant in the PRO, dated Oct. 3, 1840, by the attorney general of British Guiana, detailing the discrepancies between the Colonial Bank and British Guiana Bank charters and the new regulations. This is cited in the Appendix {318} for those interested in the legal aspects of chartering colonial banking companies. For an understanding of the subsequent discussion, it is only necessary to enumerate some of the conditions considered essential for banking companies by the Board of Trade, prior to 1840. In many respects they were exactly the same as the Treasury regulations adopted later.

--shareholders were to be liable for twice the amount of shares subscribed, even up to one year after having transferred their shares to others;

--business was not to commence until 1/2 of the subscribed capital had been paid-up;

--100% of the nominal capital was to be paid-up within 12 months;

--the banks were not to own shares in themselves;

--they were not to lend money on real property;

--their privilege to circulate notes was to be limited to notes of more than £1 sterling and had to be payable in specie, upon demand;

--security was to be provided to the public against misconduct by the directors;

--stipulated procedures were to be followed for publishing the accounts of the banks with access, to the bank books, allowed to public officers, to verify them;

--the charter was to be forfeited on suspension of specie or cash payments for a total of 60 days, in any year;

--the total paper discounted, on which the names of directors or officers of the corporation appeared as drawers, acceptors, or indorsers was not to exceed 1/3 of all discounts of a bank.

## (2) STRENGTHS ENDOWED BY A ROYAL CHARTER

The evolution of the joint-stock company and the advantageous reasons for its adoption, in the 19th century, have been extensively discussed by others.* This section will focus upon strengths and weaknesses of a Royal charter, by looking at those of the Colonial Bank, the British Guiana Bank, the West India Bank, the Union Bank of Jamaica, and the Jamaica Bank.

Each charter was slightly different from the rules and regulations of HMG and, therefore, from any other one. However, five general strengths were common to all the West India banking charters:

--the incorporation as a legal body;

--the ability to attract large amounts of capital from a diverse group of shareholders;

--limited liability;

--the right to suspend specie payments for a fixed period every year; and

--the privilege of circulating notes.

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*Footnote: See E. Penrose, The Theory of the Growth of the Firm [319], or Aldcroft, The Entreprenuer and the British Economy 1870-1914 [320], for general discussions while J.W. Gilbart, The Logic of Banking [2], or A.S.J. Baster, The International Banks, [13]for specific analysis of joint-stock banking. Gilbart's analysis is noteworthy because he, himself, was an active pioneer in joint-stock banking in England in the mid-nineteenth century.

## (a) INCORPORATION

Both Baster and Landes agree that banks evolved from private ownership, through the partnership of close associates or racial/religious groupings, to the impersonal organization of a joint-stock company. This evolution can be partially explained, in the case of the international banks, by the unique needs of international commerce. Long distances and the need for a trusted confidant, at the other end, made banking more than a single man operation. Furthermore, financing an increasing volume of trade was progressively beyond the capital an individual, or even a group of partners, could raise. In a pamphlet extant in the Bodleian Library, written in support of the Colonial Bank in 1838, G.R. Young argued that it was the combined efforts of numerous prominent individuals in a joint-stock bank that gave it strength. But incorporation was possible by a 'deed of settlement'--as in the Planter's Bank in Jamaica, discussed earlier. [321] The West India Bank, for example, whose prospectus was issued in Sept. 1839, first organized itself under a 'deed of trust. It, then, applied and was granted a Royal charter in Nov. 1840. [322] The Jamaica Bank continued to operate as a 'private association' when its act of incorporation was disallowed by the governor of Jamaica in Dec. 1836. [323] Such incorporation rested upon a "covenant by the directors [sic] and proprietors with the trustees to preform the stipulations and provisions of the deed". [321] They were only as good as the honour and integrity of those who were a party to them. In order

to ensure that the safeguards promised shareholders of such banks were legally binding and protected, they needed to be registered with a public body. The Royal charter was such a registration, with the highest authority in the empire. The strength of this, of course, was its being automatically binding upon any lower authorities. Incorporation by a lower body would have, merely, required the approval or sanction of a higher authority. The British Guiana Bank, for example, was incorporated by the local legislature in 1836, but found it needed a further 2 years of negotiation and amendments, in its ordinance, before it could satisfy the authorities above the local legislature.

The charter endowed the corporation with a legal existence. This, in turn, meant that its shares and dividends were accorded the legal status of real property which could be bought and sold. The Colonial Bank charter of 1836, for example, explicitly ordained "... that all such Capital or Joint Stock, and the profits and advantages thereof, shall be and be deemed personal Estate, and be transmissible accordingly". [250] Although worded differently, a similar injunction was also ordained in the British Guiana Bank charter. [324]. These made it possible for the corporation to raise a larger capital from a wider group of shareholders.

## (b) THE ABILITY TO ATTRACT LARGE SUBSCRIPTIONS FOR CAPITAL

The primary strength of a joint-stock bank was its capital. It was raised from a large number of subscribers, where capital was available, for investment in other markets, where opportunities existed. The capital of a colonial banking company was a direct function of the market it was going to serve. Its ability, in turn, to raise capital depended upon <u>where</u> it sought to raise it. The meagre capital resources available in the colonies has already been cited when discussing the commercial opportunities there. The weakness of the local banks in raising large amounts of capital in the colonies, discussed later, confirmed this. Large capital could only be raised in Europe. Royal charters gave the prospective shareholders the legitimacy of legal incorporation and the security of government rules and regulations. The latter was more important if the capital raised was to be invested thousands of miles away, in the colonies. These strengths enabled larger banks to raise capital, in Great Britain, for a diverse number of colonies. They also enabled the bank, intent upon serving only one colony, to supplement the meagre resources available in the colony with external capital. The British Guiana Bank, for example, found that it could not attract subscriptions for the portion of its capital, allocated to the 'Mother Country', so long as it had not been granted a Royal charter. [309]

But a colonial banking company raised a given capital, outside the colony, only by sacrificing (or diluting) its local

ownership--and, therefore, local approbation. There was a trade-off between local ownership, size of operations, and the resources available for it. More local content implied smaller capital resources that limited the bank's market size. Larger markets required more capital and, therefore, the need to tap a larger capital market. This then reduced the local content of ownership. Local content, in turn, meant local approbation. The need to trade-off local content against available resources and, therefore, market size was a critical strategic problem. This was discovered by the West India Bank which had erred in matching its market size with the capital resources available in the colonies.

A comparison of the West Indian banking companies illustrates how the respective trade-offs could become a strength upon which a company could prosper or, instead, a weakness which could lead to its demise.

The British Guiana Bank, the Jamaica Bank and the Union Bank of Jamaica were local banks, launched with the full support of the colonists. Their strength lay in retaining this approbation. This, in turn, meant restraining themselves to a small market and an appropriately small capital.

The British Guiana Bank was deliberately restricted to serve only the two districts of Demerary and Berbice. This was clear from the differences between Hugh Robertson and the other promoters, including the governor. It, therefore, only required a modest operating capital, the major portion of which could be

raised in the colony. The first prospectus of the bank, published in the Royal Gazette of British Guiana on Aug. 4, 1836, proposed a capital of £300,000 sterling divided into 6000 shares of £50 each. It suggested that two-thirds of the capital be offered in the colony. Not without good reason--seen in the last chapter--1/6 of the shares were reserved for the colonial government, including the governor and his family. The balance was reserved for external friends. [325]

Only a small capital could be raised in the colony. The promoters were aware of this. They adopted two special conditions, for example, which were designed to overcome this problem. The first one was outlined in a new prospectus published again in the Gazette on Sept. 22, 1836. [326] The bank's capital was denominated in guilders (f)--f4.2 million. Raising capital in the local currency (guilders) was both easier and cheaper. Easier because of the shortage of specie, discussed earlier, in the colonies. Cheaper because English specie or bills would have commanded a premium. Such savings made it easier for shareholders to buy more shares or pay their calls. The second one, found in Ordinance 82 incorporating the bank in Nov. 1836, reflected, even more, the small capital needs and the meagre resources available in the colony. The bank was to commence operations when 1/2 of the capital was subscribed and 1/10 paid-up. [327] The first call for f140, advertized in the Gazette on Dec. 21, 1836, was the maximum allowed by the ordinance. [328] The bank commenced operations on Feb. 16, 1837

with a paid-up capital of £430,000, or a little more than the required 10%.

The Jamaica Bank, on the other hand, launched, even before the Colonial Bank in Dec. 1835, had been more ambitious--both in terms of its size of operations and its capital requirements. The prospectus proposed a capital of £500,000 sterling, in 50,000 shares of £10 each. The Jamaica Bank proposed to raise as much capital, as that invested by the Colonial Bank in the West Indies, for just the island of Jamaica. It, furthermore, proposed to do so in Jamaica. As much as the directors may have been pleased to win the approbation of the colonists by raising their capital in the colony, the resources were just not available. The bank had to abandon its quest for a charter and continue business as a 'private association'. Perhaps, it was the hope of succeeding with a smaller capital that induced the promoters, later on, to launch the Union Bank of Jamaica. With its large capital, the Jamaica Bank could not have been a local bank. It would have had to sacrifice local ownership to raise its capital. As a local bank it did not need the large capital. Its prospectus, dated at Liverpool on Dec. 10, 1835 [30], closely resembled that of the Colonial Bank. Perhaps "deservedly", in 1864 it was bought for £10,000- and became a part of the Colonial Bank--see details in the court minutes of 1864-1865 cited in the Appendix. {329}

The Union Bank of Jamaica was an even more interesting example. Its promoters were not local colonists without adequate

access or experience with the capital markets of Europe. This group of Liverpool merchants did. They had already tried to promote the Jamaica Bank, two years earlier in 1835. Their primary objective was once again to keep the ownership of the bank in the colony. Their petition, in 1838, for a Royal charter explained why the promoters sought to raise the capital of £250,000 sterling by issuing shares of only £10 each.

> " That your Petitioners submit that by raising the capital by shares of so small an amount an opportunity will be afforded to the Labourers and poorer Inhabitants of the Island to invest their savings with purchase of shares in the company; which your Petitioners trust would produce a great moral benefit in the Island + [sic] extend + confirm the beneficial effect of the recent changes in the state + condition thereof. " [316]

The decision to become a popular bank, with the plurality of the shares in the hands of local colonists, precluded any large amounts of capital. The nominal capital of £250,000- sterling could not be raised in the colony. The resources were simply not available. Only 10,000 of their 25,000 shares issued were subscribed in the colony. This meant that, unlike the other banks, its shares had to be fully paid-up. Partially paid-up shares meant having to go outside the colony to raise the remaining capital. [316] Otherwise, the ratio of its paid-up capital to its nominal capital would have been below levels acceptable to HMG.

The Colonial Bank and the West India Bank did not pretend to be local banks. In fact the extant evidence,

discussed below, suggests that the promoters of the Colonial Bank may have wanted to serve all the North American British colonies. Hugh Robertson also had wide-ranging ambitions in banking. Part of the reason for his falling astray of the British Guiana Bank had been its exclusive preoccupation with one colony. Such ambitions however required a large capital. This, in turn, meant that it would have to be raised outside the colonies. The strategic mistake of the West India Bank (which Robertson turned to after leaving British Guiana) was to assume that the capital needed for such a venture could be raised exclusively in the colonies, without the sacrifice of local ownership.

The Colonial Bank was prepared to make such a sacrifice. It was more interested in raising a large capital--the then staggering sum of £2 million sterling.* It was this large capital that secured so many special privileges to the bank, such as not having to pay up its subscribed capital within a fixed period of time or, even, having to raise the 1/2 of it in order to commence business. [318] The Treasury acknowledged this both in their July 19, 1836 memo, cited earlier, as well as other occassions when petitioners for a charter sought similar privileges. The Treasury was not prepared to easily concede to others the same terms won by the Colonial Bank especially after

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*Footnotes: According to McQueen, it was the "... most extensive and princely ...." [245] establishment, while Baster called it "... the most important Empire Bank in existence." [12]

1839.* {316} Three-fourths of the 20,000 shares were offered in London. But even the capital market in London was not very confident that such a sum could be raised. This will be discussed later as a weakness of the banks. Assuming that the resources were available in London, there was still the inescapable question of whether such a sum could be profitably employed in the West Indies.

Due to the almost total lack of any extant material pertaining to the promotion, petition and negotiation for the Colonial Bank charter, it is only possible to speculate about the need seen for such a large capital. The minutes of the Privy Council meeting of April 13, 1836, which approved the grant of a charter to the Colonial Bank, are extant in the PRO. {331} They contain the recommendations of the Board of Trade (to whom the petition had been referred) by an earlier Privy Council meeting of Feb. 3, 1836. {332} The recommendations specified nine conditions, which the board had demanded and the petitioners had accepted. If it is assumed that these conditions were imposed by the Board of Trade because the original proposals were unacceptable, a better idea of the petitioners' objectives can be formed. The first condition imposed by the Board of Trade was, "that the business of the said Corporation should be confined to West India Islands and British Guiana". [331] This implies that

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*Footnote: See Appendix for Treasury refusal to accord the Union Bank of Jamaica similar privileges to the Colonial Bank.

the promoters of the Colonial Bank may, perhaps, have had wider ambitions. This would explain the larger capital projected for servicing such a larger market. Further corroborating evidence that such may have been the case is extant. The Colonial Office reply on Feb. 18, 1836 to the Board of Trade's enquiry about the terms of a charter [331] suggests that the promoters of the Colonial Bank may have seen their market as enveloping all of the British colonies and certainly those in North America. Lord Glenelq objected to the Colonial Bank doing business in the British colonies in North America on the grounds, "... that there are political objections to the Scheme, which must be regarded as conclusive against it... entirely unconnected with any considerations of Commercial policy". [333] This explains the above recommendation of the Board of Trade to restrict the operations of the bank to the West Indies and British Guiana. In turn, the smaller market explains why the promoters and HMG were content with the bank commencing business upon only 1/4th or £500,000 being paid-up.

The West India Bank was promoted by Hugh Robertson in 1839. He envisioned the establishment of a bank--not unlike the Colonial Bank-- with branches in Barbados and 10 other colonies. The prospectus proposed a capital of $2 million, 1/2 of which was to be subscribed and 1/4 to be paid-up before the bank commenced business. No reference was made to a fixed time-limit to pay up the full subscribed capital. [334] The bank's strategic mistake was to assume that the capital needed for such a venture could be

raised exclusively in the colonies. That the resources to raise 20,000 shares of $100 each, 1/2 of which had to be immediately paid-up according to HMG regulations, did not exist in the colonies must have worried Robertson. His petition for a Royal charter in 1839 proposed that only 1/2, or a $1 million be offered for subscription and 1/2 of it (or 1/4 of the earlier capital of $2 million) to be actually paid-up. [335] Five years after having been endowed with a Royal charter, the West India Bank had still not conformed to the rule to pay-up its subscribed capital. The Treasury recommended to the Colonial Office that "... My Lords consider it to be imperative upon them to recommend that the power reserved by Her Majesty of revoking the charter should be excercised". [336] If the West India Bank wished to revise its capital, the Treasury suggested, it ought to apply for a new charter. The negotiations between HMG and the bank, in 1846, were soon overtaken by the failure of the Bank.

## (c) LIMITED LIABILITY

The most conspicuous strength of a joint-stock bank was the limited liability it offered shareholders. The liabilities of private banks (including partnerships) were ostensibly guaranteed by the total wealth of their owners. The empty boast of the Planter's Bank in Jamaica, discussed earlier, was to the point. [337] Its failure brought disaster to its shareholders and, in turn, the general public, who held its liabilities in the

form of bank notes. [338] The failure of the chartered West India Bank was very different.

Limited liability had saved individual shareholders from the full consequences of the failure. It was the privilege of limited liability that had attracted the large numbers of shareholders who provided a security unattainable with a few, but totally liable owners. When the West India Bank sought to open a branch in Antigua, it was alleged to consist of shareholders with inadequate means. An advertisement is extant in the Feb. 21, 1840 edition of the Antigua Herald & Gazette refuting the unfounded rumours. It pointed out that the West India Bank shareholders were liable to the full amount of their subscribed shares. [339] In fact, by the time their charter had been granted Treasury requirements had increased this to twice the amount of subscribed shares. The West India Bank insinuated that these rumours had been circulated by the branch of the Colonial Bank. There are grounds for believing this.

The extent of the limited liability, of its shareholders was regarded by the Colonial Bank as a privilege. The advertisement prepared for the newspapers proudly explained that "by the terms of the Charter the liability of each proprietor is limited to the amount of the stock held". [340] In a letter written to the Colonial Office, for example, the Colonial Bank implied that the directors of the Union Bank of Jamaica, who were seeking a Royal charter, were deficient in "... their wealth or responsibility or other circumstances... to

insure that prudence and good management in the conduct of such an Establishment, which can alone secure the Public from the probability of loss". [316] When the British Guiana Bank sought the same privilege as that extended to the Colonial Bank, Peter Rose voiced his objections, both in the Court of Policy and to the directors in London.

The prospectus of the British Guiana Bank, published in the Gazette of Aug. 4, 1836, had proposed that the liability of shareholders be limited to the full value of their shares. [341] The ordinance which incorporated them had adopted this. [342] HMG had not objected to this and had merely insisted upon the liability being extended for one year after the transfer of any shares. This was communicated to Governor Smyth, in the Colonial Office letter of Dec. 15, 1837. [343] When the amendments to the ordinance were approved by the shareholders of the British Guiana Bank and were ready for submission to the local legislature, Rose wrote his directors on Feb. 21, 1838 that he would move, in the legislature, that the liabilities be limited to twice the subscribed capital, "... but I do not expect to succeed". [344]. The amended ordinance was passed and the charter granted. Liability was extended only to the subscribed capital, for one year after transfer of the shares. It appeared as if in this case the Colonial Bank had retained a privilege denied the local bank. Its shareholders had no liability once their shares were sold. The local bank lobby in the Demerary legislature, however, once again out-manoeuvered the Colonial

Bank. The regulation was worded so as to extend liability only for the amount remaining unpaid on the shares. Rose wrote, in frustration, to his directors:

> "This cannot be the intention of Lord Glenelq's Letter [of Dec. 15, 1837].- because if the whole amount of the subscribed capital was paid-up there would be no longer any liability against the Shareholder transferring, in fact it is limiting the liability to the amount of the subscribed Capital." [345]

When the West India Bank was known to be in danger of failure and sure to stop specie payments, the London Times 'Money-Market and City Intelligence' column of Nov. 24, 1847 pointed out that its shareholders were liable to twice the nominal capital or £240,0000- sterling, which if not sufficient for all the creditors was adequate once they were ranked in deserving order. An idea of this order can be seen from the Antigua Herald & Gazette of Feb. 5, 1848. Priority was given first to holders of drafts on London, then to holders of bank notes and finally to those with deposits.

> "The depositors, or the great part of them, stand distinguished from this class [i.e., holders of drafts] in so far as they have lodged their money for the sake of interest, and as long as the principal is safe, they may be supposed to be satisfied with the punctual payment of the interest on their respective deposits; whereas the holders of Drafts gave their money not for the sake of interest, but only that it should be paid elsewhere." [346]

## (d) THE PRIVILEGE TO SUSPEND CASH PAYMENTS

The privilege to suspend specie payments for a limited period of time, without forfeiting the Royal charter, was a strategically important strength because of the nature of bank assets and liabilities. Assets such as bills purchased, discounts, cash credits, etc., were highly illiquid. Liabilities such as bank notes, deposits on call, intercolonial orders payable, and other demands for specie had to be met immediately. Without a lender of last resort, a period of grace was essential. Liabilities had to be frozen until the assets could be realized. The West India Bank's letter to the governor, dated Jan. 29, 1848 [347] referred to it as the reason for suspending payments. The longer the period, of course, the more strategically significant was the strength. The Board of Trade had recommended to the Privy Council, at their meeting of April 13, 1836, that the Colonial Bank be restricted to suspension of cash payments for the space of 60 days. [331] This implied that the bank could suspend payments as many times in one year as it needed, so long as any period did not exceed 60 days. The British Guiana Bank charter, in 1838, endowed the exact same privilege--even the wording was almost exactly the same. The rules and regulations adopted by the Treasury, however, were more stringent. The Treasury advised the Board of Trade, on Feb. 14, 1839, that the Union Bank of Jamaica should forfeit its charter due to the "... suspension of Specie payments for 60 days in any one year, altho' [sic] not consecutively...". [316] The West

India Bank, which was also incorporated after the regulations of the Treasury were binding, had only a total of 60 days. Even if this difference would not have saved the bank from failure, the privilege enabled the election of extraordinary directors who collected the bank's receivables and satisfactorily paid its liabilities. [347]

## (e) THE PRIVILEGE TO ISSUE NOTES

The use of private notes to settle commercial debts (or for accommodation purposes) was a common part and parcel of colonial trade. There were no rules nor regulations to restrict the freedom of an individual (or group, in partnership) to issue promissory notes. Such regulations would have aversely affected colonial trade. This was explained in earlier discussions of the opportunities and threats in colonial commerce. Responsibility for the redemption of such notes was solely vested in the individual (his endorsers and/or acceptors). This, in turn, established the limits of an individual's credit rating and his ability to circulate such notes. The issue of notes by a corporation, on the other hand, was a more complex matter. Responsibility was not clear. If the shareholders were to be responsible, what protection were they to be accorded? This was even more significant if the notes were payable on demand--i.e., had no specific usuance. Such notes became, as discussed earlier, a threat to the specie balances of the banks. The

right to issue bank notes in the name of the corporation was a special privilege endowed by a Royal charter. Unchartered banks, such as the Jamaica Bank and even the Planter's Bank circulated notes issued in the name of their directors, secretary and/or cashier. Those directors whose signatures were affixed to the note bore personal responsibility for their redemption, whatever arrangements may have been made to share responsibility as a body of shareholders in their deed of incorporation*. When the Planter's Bank failed in 1848, the investigative committee found more than 50% of its total liabilities (= £78,425) to be of such notes in circulation. The disallowance of its charter, to cite another example, did not deter the Jamaica Bank. Governor Lionel Smith reported to Lord Glenelq in his despatch of Dec. 27, 1836 that, "the Jamaica Bank has issued it's [sic] notes, but not to any considerable extent, and quite as paper of private obligation". [349] By July 19, 1838, their circulation had reached such proportions that the Colonial Bank cited it as a competitive disadvantage, justifying their petition for a supplementary charter to release them from the obligation to pay their notes in silver dollars. [350] Further complaints from the Colonial Bank prompted Lord Glenelq to question the governor about the Jamaica Bank circulation. Governor Lionel Smith's reponse manifested how easy it was to maintain a large circulation without HMG sanction and the potential dangers to the

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*Footnote:See Appendix for Planter's Bank indemnification for directors acting for them. {348}

public of irredemable notes in circulation. In a letter to Sir G. Grey dated Dec. 24, 1838, the Colonial Bank reiterated the justifications for limiting the issue of bank notes to one institution in the colonies:

> "... they [the Colonial Bank] would most respectfully urge upon his Lordship the danger of granting too extensively the power of issuing paper.- An opinion is entertained by many well informed and practical persons, that the power of issuing Notes in any one country should be confined to a single Institution and if there be any foundation for that principle as applicable to this country where Banking has been carried on so long and where it is understood both practically and theoretically, how much more must there be when applied to a country like Jamaica where Banking is in its earlies infancy.- Still farther will this appear on a comparison of circulating medium required by this country and that required by Jamaica for if one issue of Paper be considered sufficient for the former, it must be allowed to be ample for the latter." [316]

In fact, the Board of Trade had endowed only the Colonial Bank with the privilege to issue unlimited bank notes--beyond the otherwise restricted amounts of promissory notes and discounts bearing the name of any director or officer of the bank. The Board of Trade in its recommendation, read at the Privy Council meeting of April 13, 1836 [331], had only imposed three constraints:

--no note to be issued for less than $5 ;

--all notes to be payable in silver dollars of acknowledged weight and fineness; and

--all notes to be payable on demand.

The charter added the injunction that these notes were to be payable, "... at such principal Bank or Banks and every of them..., as at the Branch or Agency from which the same shall

have issued". [250] More about this will be said later. None of the other banks were endowed with the privilege to issue unlimited bank notes. Their notes were treated as one of the other promissory notes and discounts, which bore the signature of their directors and officers. These were not to exceed 1/3 the total discounts of a bank, at any time. The Colonial Office explained this special privilege--given on account of the Colonial Bank's large capital--to Governor Light of British Guiana, after having said that the local bank could not be granted, in this respect, statutory comparability with that of the Colonial Bank. {353} This, of course, had never disabled the British Guiana Bank. Earlier discussions have cited their circulation of notes, even without HMG sanction. The final draft of their charter, sanctioned by HMG on Oct. 6, 1838, permitted notes to be issued so long as they did not exceed 3 times the paid-up capital of the bank. [324] This shift reflected the views of the Treasury, rather than the Board of Trade. The charter of the Union Bank of Jamaica, approved in 1839, restricted the issue of notes to less than 3 times the paid-up capital and deposits. [316] A Treasury letter dated Dec. 18, 1845 to the Colonial Office explained their intent to restrict the power of bank's to issue notes beyond the amount of their paid-up capital. [336]

## (3) LIMITATIONS & WEAKNESSES

### (a) THE DIFFICULTIES OF ESTIMATING THE CAPITAL REQUIREMENTS

Part of the failure of the Jamaica Bank to obtain a Royal charter arose from its having sought to match the capital needed for a large bank with the unavailable resources for it in the colony. Although, the Jamaica Bank's errors were an important lesson for those (including its successor, the Union Bank of Jamaica) who came later, the capital requirements of a bank (or the branch of one) in the colonies was not predictable with any degree of practical accuracy. Robertson, for example, tried to explain, with hindsight, some of the factors he had taken into consideration. In a letter to the governor of Barbados on Sept. 3, 1845 extant in the PRO, Robertson explained the motives that had led them to set their capital at $2 million, in 1839:

> " It must also be evident that the paid-up capital of a Bank should be in some proportion to the population and to the prospect of a Circulation...." [354]

Such an analysis merely stated the obvious. It said more about their inability to make any precise estimate, than it did about their motives. By 1842, Robertson had reconsidered the capital of $2 million projected for the West India Bank. In his petition to the Queen for exemption from the regulation to pay-up their capital within 2 years, Robertson admitted that, "... it would be difficult even under more promissing [sic] circumstances

of these colonies to employ profitably in them in Banking business a larger capital than $1,000,000...". [355] But even this was not a useful guide because of the West India Bank's inability to raise more than this amount. Robertson's conclusions are suspect due to this limitation. Banking in the West Indies had not been tried before 1836, on any large scale, and, even, the Colonial Bank regarded itself as an experimental case. The failure of the West India Bank, furthermore, suggests that any lessons learnt by the Colonial Bank had either not been significant or, more likely, kept to itself as a strategic competitive advantage. The Colonial Bank archives provide an insight into the difficulties of precision and accuracy in trying to estimate the capital requirements of branches.

Reference has already been made to the unutilized resources retained by the manager in Demerary. The archival evidence suggest that the experimental nature of a West Indian banking company precluded any precise estimates, in London, of how much capital was needed by a branch. The Colonial Bank was only able to estimate the capital requirements of its branches after its operations had got under way. The responses to the first question, in the superintendent's questionnaire of Dec. 13, 1837 outlined in Diagram 4, manifested the limited degree with which even the managers, on the spot, could actually estimate the particular capital needs of their operations. None of the managers put forward a specific sum.

The manager in Demerary was defensive. Conscious of

the directors' anxiety over the unutilized resources kept by him, he offered to remit $100,000, on Jan. 12, 1838.

A report from Peter Rose to the directors is extant in the Demerary letterbook, dated May 13, 1837 (i.e., 2 days before the bank commenced business officially), containing the initial capital of the Demerary and Berbice branches: [356]

| | |
|---|---|
| Doubloons & other Gold Coins | $ 24,856.00 |
| Dollars | 161,878.00 |
| Small Silver Coins | 256.19 |
| Demerary & Essequebo Paper | 5,772.00 |
| | $192,762.19 |
| Berbice Treasury Balance | 10,000.00 |
| | $202,762.19 |

How much of this capital was gainfully employed and how much was retained as unutilized reserves, in 1837, is not clear. Whatever the ratio, the directors were not pleased with it. Hence the .. commitment by Rose to remit $100,000 on Jan. 12, 1838. By April 3, 1838, the treasury balance had, Rose reported, fallen to $93,478. [357] This added credence to the suggestion earlier that the difference had been repatriated back to London--only to be reallocated to other branches! A reduction in the specie balance held by a branch reduced the unutilized reserves. But it did not, necessarily, reduce the capital employed. Specie was only one source of capital. Drawings upon the court and bank notes were other means by which the branch could expand its capital base. The Demerary balance sheet for the year ending Dec. 31, 1838 illustrates this point: [358]

| | | |
|---|---|---|
| "Avge Gross Balce [sic] due Parent Bank | | $479,700.00 |
| deduct avg.amt.[sic] which would have stood as 'Notes Issued' had that a/c [sic] been opened during the preceding six months. | | 189,710.00 |
| | Nett [sic] Balance | 289,990.00 |
| Balance due Parent Bank on 30th June | | $523,599.54 |
| deduct amount Notes from Barbados | | 168,300.00 |
| | Nett [sic] Balance | 355,299.54 |
| Balance on 31st December <u>after</u> debiting with 'Notes Issued' and <u>before</u> crediting profit | | 170,353.57 |
| | | $184,945.97" |

The balance due to the parent bank--i.e., the capital employed by the branch--as of June 30, 1838 was certainly more than the original specie balance or the amount retained after Jan. 1838. The question of what constituted a minimum and maximum capital requirement still remained unanswered.

The Antigua manager, simply, suggested that the needed resources could be raised from the branch operations. Either he did not, yet, understand the precise implications of his operations or deliberately avoided addressing them. Both of these are consistent with the directors' displeasure in his management of the branch, discussed later. The sale of drafts on the court, for example, increased the capital of the bank at his disposal. The questionnaire had not sought whether he could draw upon the court. The question had asked how much he would need to draw.

The response of the agents in Berbice was the most plausible and constructive.

> "It is impossible to say exactly what means may be required but we presume the last three Months of the year may be taken as a criterion for the next three months." [359]

It pointed to a reliable measure to gauge the capital needs of the branches. Only after more than a year into operations was Rose in a position to offer an estimate of the capital required by his branch. In a letter dated Sept. 12, 1838, Rose appeared to be saying that the minimum capital required to operate a branch was $70,000 and the maximum ought not to exceed $100-110,000. [360] This appears strange, considering Rose's own indebtedness to the parent bank in Dec. 1838 (above) of more than $355,000 or the figure he gave in this letter of about $350,000. Both the minimum and maximum figures are too low! The discrepancy is too large to be reliable. This was confirmed by a subsequent letter, dated April 20, 1839, where Rose repeated his estimates. The figures were denominated in sterling. Obviously, the clerk in Demerary had copied them wrongly into the letterbook. At an exchange rate of $480=£100, the minimum £70,000 would have amounted to $336,000--much more compatible with the capital employed by Rose or his explanation--larger discounts--of the slightly higher than minimum amounts. In his letter of April 20, 1839, Rose was able to identify some of the parameters which determined the capital requirements of a branch. It was now based upon nearly two years of experience. [361]

--THE ABILITY TO MAKE CALLS ON THE SHAREHOLDERS:

He recognized the futility of attempting to raise any more capital by making additional calls upon the shareholders. The repeated damage it could do to the share prices would have deterred the directors--see later discussions.

--THE AMOUNT NEEDED TO BE KEPT IN LONDON:

He also admitted the need to maintain enough funds in London to meet the engagements, including the payment of drafts drawn by the branches on it.

--THE PARTICULAR BRANCH'S SIZE OF OPERATIONS RELATIVE TO THE COST AND EXPENSES OF OPERATING IT.

More capital should have been allocated to branches located in larger colonies. His branch, Rose argued, could have gainfully employed the capital of four smaller branches while (due to unexplained economies of scale) only one-sixth of the capital saved by starving smaller branches would need have been spent on additional expenses. [361] The number of these branches had been steadily increasing since 1837. In 1836 the bank had envisioned 3 districts, with 3 principal branches and 2 minor branches. By 1839 the 3 districts had opened 18 sub-branches and 9 foreign agencies. Although the details can be relegated to the discussion of the multi-branch organizational structure of the bank, later, the growth in the number of branches must have placed more pressure upon the available capital of the bank. Given the limitations of note circulation and the aversion of the bank to increased deposits, this amount could never have far exceeded the paid-up capital of the shareholders. But whatever

the actual amounts involved between 1836-1839, the increase in branches made capital allocation based upon a consistent understanding of minimum and maximum requirements essential. Obviously, the bank need not have limited its operations to its paid-up capital of £500,000. Branches could and did operate by drawing drafts upon the court, selling intercolonial orders, circulating notes, etc. In order to protect itself from over-exposure, however, the bank increasingly needed to reduce the indebtedness of branches to the parent bank. The directors, therefore, continously urged this upon their managers. This, in turn, prompted managers to seek consistent and pre-set guidelines for the minimum and maximum capital needed to operate a branch.

Peter Rose was not alone in his demand that the directors should specify the maximum capital available to branches, instead of continually demanding the reduction of the amount owed by a branch to the parent bank. The manager in Antigua wrote in frustration, on Sept. 20, 1839 [362], to the superintendent that, "if you will be good enough to name a limit for our Balance to the Parent Bank I shall attend to it...". No deliberations nor resolutions, however, are extant in the court and/or committee minutes to shed light on how the directors finally decided upon a balance. That they did set a maximum balance appears to be borne out by such comments, in the correspondence of both the Demerary and Antigua branches, as:

" I am preparing for the reduction of the Balance due by this Branch to the Court, and think it may be brought under $200,000 without materially reducing the profits of the Branch." [Antigua: 363]

"I shall as a matter of course.. endeavour to keep the Balance I owe to the Parent Bank within a limited sum--I have... limited the Berbice Branch to 90 @ [sic] 100,000 Dollars and given directions to them to reduce their balance to that sum as soon as possible.... My own Balance I will endeavour to keep under $200,000.-...." [Demerary: 364]

As if to confirm this, the balance reported, on July 8, 1839 by Rose to London was $190,000. [365]

## (b) DIFFICULTIES OF RAISING PAID-UP CAPITAL: THE STRATEGIC IMPLICATIONS

Like many other companies of the period, the ease with which the colonial banking companies (both in and out of the colonies) attracted subscriptions for shares was a marked difference to their weakness when it came to raising calls upon those shares. Raising equity in the capital-deficient colonies and/or in London in the poor post-1830s economic environment was a serious, if predictable, weakness. This weakness, in turn, had two strategic implications for the management of a bank, an external as well as an internal one:

(1) the regulations of HMG required 1/2 of the capital to be paid-up before a charter could be granted while the whole amount was to be paid within a fixed period of 1-2 years thereafter. The difficulties of raising paid-up capital could be potentially fatal at the commencement of business.

(2) besides the external negotiations with HMG and efforts to successfully float their shares each bank invariably also had to cope with internal problems within the organization caused by the difficulties of raising paid-up capital.

The strategic behaviour of the Jamaica Bank, the West India Bank, or even the British Guiana Bank can, in hindsight, only be understood in its external context. The archives of the Colonial Bank allow an insight into the internal adjustments which were necessary, at the commencement of business, to cope with the difficulties of raising paid-up capital.

As virtually all of the banks had difficulties raising their paid-up capital, overcoming this weakness in the external sense required the ability to prevail upon HMG to reprieve them from compliance with one or more of the relevant regulations. . .

By virtue of its powerful promoters, eminent directors and large capital, the Colonial Bank was neither required to pay up one-half of its capital before the commencement of business nor had to raise the full amount within a prescribed period.

The West India Bank, on the other hand, tenaciously dragged out negotiations with HMG for six years--until the bank failed. Two years after its petition for a charter had received Treasury approval at their meeting of May 1, 1840, the West India Bank still had not paid even 1/2 of its projected capital needed to commence business. This was clearly sufficient grounds for its charter to be revoked. It desperately petitioned the Queen to be absolved altogether from having to pay-up its capital

within 2 years and requested the period instead to raise the 1/2 needed to commence business. [355] It succeeded in prolonging the negotiations and holding on to its charter. The London Times 'Money-Market and City Intelligence' column of Nov. 24, 1847 assumed that the requirement for the capital to be fully paid-up had been dispensed with by a Treasury minute in 1843--as it had been in the case of the Colonial and British Guiana Banks earlier. [366] Robertson's letter to the governor of Barbados on Sept. 3, 1845, however, clearly reveals, "... that Her Majesty was not advised to grant the prayer thereof". When the Treasury finally recommended the charter be revoked, on Nov. 15, 1845, the bank had only succeeded in raising $530,200 of their $2 million capital. [334] This the bank vehemently argued had been partly the fault of the regulations which:

> "... so strongly impressed the public in general with the conviction that such an Amount could not be raised or profitably used, that parties who would otherwise have done so, were prevented from subscribing for more shares.
>
> ....
>
> The Directors are convinced that the insertion of the clause in the Charter which required the whole to be subscribed and paid up in a specific period, has been the sole cause, of its not having been in their power to raise a larger capital, from the fact that parties in the West Indies not being experienced in raising by joint-stock large sums, considered it impossible to effect it." [334]

The Treasury could not agree. It was the responsibility of the banks, it argued, to match their projected capital with economic realities.

> "... the Projectors of the 'W.[sic] India Bank' in making their application for a Charter of Incorporation... ought to have reduced that Capital to such proportions [sic] as they might have felt reasonably assured could be raised...." [336]

This mistake had also been made by the Jamaica Bank in 1836. Although undoubtedly aware that it could only expect subscriptions for 7500 shares at the commencement of business, its prospectus proposed a capital of £500,000 in 50,000 shares of £10. Whatever was not subscribed for in the colonies after one year was to be placed in London. None of this, however, conformed with the guidelines considered essential by the Board of Trade. Unlike the West India Bank, the Jamaica Bank never received a charter.

The British Guiana Bank had been the most successful bank in matching capital (f4.2 million) and size of operations (only in British Guiana) with the expected resources in the colony. But even then, negotiations with HMG were necessary for an exception to be made to the regulations. The 1836 British Guiana Bank ordinance had called for:

--a minimum of 4500 out of the total of 5000 shares to be subscribed before the end of 1837; and

--a minimum of f1,260,000 or 30% of the nominal capital (40% of the 3/4 subscribed) to be paid-up.

By the first half-yearly general meeting, on July 24, 1837, only 3509 shares had been subscribed for and the balance sheet exhibited showed only a paid-up capital of f979,000. [367] By the second half-yearly general meeting, on Jan. 24, 1838 [368], the bank had succeeded in achieving the necessary 4500 subscribed

shares and had paid-up more than the minimum capital required. Once again, however, none of this was acceptable to HMG. A letter, from the Board of Trade to the Colonial Office, is extant, dated Nov. 24, 1837, rejecting the terms of the ordinance. The business should not have commenced, the board argued, before at least 1/2 the subscribed capital was paid-up. Furthermore, the whole capital should have been payable within 12 months. [369] These terms were conveyed by the Colonial Office to the governor on Dec. 15, 1837 and, no doubt, to the bank by its representative in London, John Innes, who had been negotiating the charter with HMG.

Without compliance with the terms of HMG, the bank could not expect to receive its charter. But even when the bank had entered its second year of operations, it still had not satisfied them. In fact, it never did. Fortunately for the bank, it had an able and tenacious advocate in John Innes, a friend in the governor, and above all a sympathetic ear (note the antipathy towards the Colonial Bank discussed earlier) in HMG which was prepared to accede comparability with the terms negotiated by the Colonial Bank. When the bank raised 1/2 of its capital, HMG reprieved it from the other requirement to pay its capital within a prescribed period of time after the charter had been granted.

The fact that the Colonial Bank had received its charter without being constrained by the minimum paid-up capital requirements or the need to pay the full amount within a

prescribed period has already been cited earlier. But these privileges would not be expected to have made the difficulties arising from the inability to raise paid-up capital any less of a managerial problem for the bank. Fortunately, the archives enable a more detailed look at its strategic impact upon the organization. Whereas in discussing the other banks, above, it is only possible to look at their success or failure to meet these requirements, in the case of the Colonial Bank it is possible to look at the underlying measures taken to meet them.

The difficulties of raising paid-up capital, for example, had strategic implications for the internal decision within the bank on how much of the shares to apportion to the colonies. The approbation and the support of the colonists was a direct function of the amount of shares apportioned to them. Given the relative lack of capital in the colonies, however, there was little incentive to apportion to them more than a token share of the subscriptions. They would have been even less likely (than shareholders in London) to have paid-up their calls. The charter suggested the allocation of 25% of the shares to residents in the colonies, "... but with full power to the Directors hereinafter named, or the Directors for the time being to alter and vary such mode and amount of appropriation as they may think fit...". [250] When the directors announced in the colonial newspapers, on April 11, 1836, that only "... a reservation of 3000 Shares for subscription by Residents in the different Colonies...." [370] had been made, there was an outcry.

The Royal Gazette of British Guiana observed sarcastically, on May 26, 1836, that "the 'liberal reservation of the Shares for parties resident in the Colonies [ promised by the Colonial Bank in its advertisement in the UK cited earlier ]', turns out to be less than one sixth!..." [31] It is only possible to understand the directors' decision, given the attitude of the colonists, discussed earlier, to non-indigenous establishments. If the 2000 shares could have gained more approbation for the bank and inhibited the support given to local competitors, then this decision may have been called an ill-advised strategy. Given the imbued prejudices, nothing short of a plurality of the shares (as was the case with the local banks) would have endeared the bank to the colonists. 25% was the same as 15%! Furthermore the cost of securing any substantial support was enhanced by the risks of not being able to raise the needed minimum paid-up capital to commence business. That this was a real serious risk can be seen from how close the Colonial Bank came to not being able to raise the required minimum.

Nearly one year after the charter had been granted, the Colonial Bank still had 159 shares on which the second call of £15 had not been paid. Furthermore, 168 other shares had not even been taken up and therefore had not paid the first call of £10. Of the needed £500,000 to commence business, the Colonial Bank had only raised £493,415. The difficulties of raising paid-up capital were compounded by the difficulties to even have the shares taken up.

The explanation for this was not to be found in the archives of the Colonial Bank. It lay in a meticulous search through the share quotations in the London Times--see Table 39. Given the unfavourable economic environment share prices were in general depressed. The market also appeared to have doubts as to the bank's ability to raise such a large paid-up capital to commence operations. The call for £15 came at the least opportune moment. The Colonial Bank shares were quoted in the London Times, on July 4, 1836, at £12.75-£13. This had fallen to £8.5 on Jan. 18, 1837. The Royal Gazette of British Guiana reported with delight that the Colonial Bank shares were being quoted, on Feb. 27, 1837, at £7--casting doubts whether it would ever commence operations. [371] Given such low prices, it is surprising to see that only 168 shares had not been subscribed for and just 159 shares still had not had the call paid on them. The value of the shares were less than the deposit of £10 and nearly half that of the call! Clearly, the directors were in a serious predicament. In such circumstances, no subscriber could have been found to pay £25 for a share valued at only a third of that amount. Neither could subscribers be enduced to pay another £15. According to the charter the latter were forfeit and could be sold by the bank. But that would not have raised the necessary paid-up capital. The bank, itself, may have been another alternative. But it was precluded, by the charter [250], from owning shares in itself.

The delinquent shares were not such a problem for the

financially sophisticated directors and, in hindsight, easily understood. The directors {372} merely used the delinquent shares as collateral to borrow the calls on them on behalf of the subscribers from Barnett Hoare & Co. This satisfied the required paid-up capital. Once this hurdle had been traversed, of course, it had a favourable affect on the market. The London Times, on July 4, 1837, quoted the Colonial Bank shares at £22.50. [373] If the original subscribers were still not interested, others were readily prepared to pay the £15 call and buy shares worth more than £20. As early as May 18, 1837, the court minutes recorded that another 63 of these delinquent shareholders had paid the loan of £15 plus interest, leaving 10 shares unclaimed. [374] Strangely, nothing more was done about these shares until Dec. 1856, when a committee was appointed to examine the dividend warrants. Their report {375} revealed that although the Colonial Bank had raised the required minimum paid-up capital, it had not chosen to register the name(s) of the recalcitrant shareholder(s)--lest he (they) be later on entitled to shares he (they) did not pay for at the time. The committe observed that the Colonial Bank had commenced business as advertized, on May 13, 1837, unable "... to complete the legal number of responsible or registered Proprietory". [375] Nothing was also said about who paid back the advance and interest to Barnett Hoare & Co. If the bank itself had done so then legal questions may be raised about violations of the charter's prohibition against the bank owning shares in itself--registered or unregistered. In turn,

even more serious questions arise whether the bank should have legally commenced operations. The rights or wrongs of the strategem, both in law and as a personal decision of the directors, are not the primary concern of this section. What is significant to the discussion, here, is the fact that the chartered banks had a potentially fatal weakness brought about by their need to raise a large minimum paid-up capital. These 10 shares were hastily registered in the names of the secretary and the chief accountant in March 1857 and sold. {377}

This strategem was appropriate for the delinquent shares. It was not as easy to borrow funds, if the shares were unsubscribed. The delinquent shares had been subscribed and, therefore, the bankers could lend money to the subscriber. This was not possible with the other shares. In a desperate situation, the directors took the risks upon themselves. At the same meeting of the court [372], the directors resolved, "... that the 168 shares unappropriated be taken in equal proportions by each Member of the Court of Directors viz 12 shares each-...". In hindsight, this decision need not have been regretted. On July 4, 1840 [378], the shares were quoted at £38.75!

## (c) NOTES CIRCULATION

The privilege to circulate notes was not always an unequivocable strength. Unanticipated changes in the economy could easily convert such legislated priveleges into weaknesses, reducing the options of a bank.

The Colonial Bank, for example, was obliged to redeem its notes only in silver dollars of acknowledged weight and fineness. Its non-chartered competitors, on the other hand, could redeem their paper in the legal tender of their colonies. As long as the multitudinous forms of money, used in the colonies, had no legitimacy as legal tender, the other banks were also obliged to redeem their paper in dollars. Otherwise, they could be refused acceptance. The Queen's Proclamation of 1838, however, enhanced the status of such forms of money as the inconvertible 'island cheques' of Jamaica to that of legal tender. The bank should not have been disabled by the proclamation if it did not have to pay its notes in silver dollars. This was quite clear to the Colonial Bank even before the Queen's Proclamation was announced. The bank petitioned HMG on July 19, 1838 to either declare the dollar to be the only legal tender in the colonies or release it from the obligation to pay its notes in silver dollars. The petition drew attention to the weakness of "... being compelled to redeem their notes in 'Dollars of acknowledged weight and fineness' whilst... forced to take the inconvertible paper of the Local Government, that being a legal tender". [379] The argument was uncontestable. Though legal tender, the colonial paper was highly discounted and of no value in external trade. Without a supplementary charter, the Colonial Bank would have been innundated with colonial paper for its notes. These notes would then have been re-exchanged for silver dollars. The bank would have found itself with paper it

could dispose of only at a loss.

It was easier for HMG to reach a compromise with the Colonial Bank than to have to consider far more extensive measures, such as declaring dollars to be the legal tender of the colonies. HMG sanctioned a supplementary charter on Oct. 30, 1838 making it, "... lawful for the said Corporation to tender in... discharge of all such Notes... the sterling [sic] value of... any such specie [sic] as... is declared to constitute a legal tender in our said Colonies...". [250] The British Guiana Bank appears not to have required a supplementary charter. Because of its concentration in British Guiana, the proclamation on Nov. 15, 1838 fixing the relative values of legal tender in the colony appeared to have been sufficient. [324]

Before ending this discussion, one further aspect of the Colonial Bank privilege to issue notes is worth citing. It also illustrates the weakness inherent in legislated privileges. It was not easy to forsee all the facets and implications, when petitioning for a privilege. Once given, they were not easy to go back upon or change.

The charter, as seen above, endowed the Colonial Bank with the privilege of issuing bank notes of more than $5. Where the dollar was the predominant circulating medium, this presented no particular problems. Those who had formulated the charter, in 1836, had not anticipated the changes in Jamaica in 1838. When the Queen's Proclamation adopted British money as legal tender, Jamaica made pounds and shillings its predominant circulation.

With its value fixed at $4^s/2^d$, the $5 bank note was a bookeeping nuisance. Five dollars was ten pence more than a £1 sterling. Though not a critical disability, it was a weakness which retarded the smooth operations of the branch in Jamaica. The Colonial Bank archives provide a more clear idea of what this nuisance was. As was usual for all the branches, the court of directors had prepared notes for the Jamaica branch--summarized in Table 12.

TABLE 12
DOLLAR NOTES ORDERED & SHIPPED
FOR JAMAICA BY THE COLONIAL BANK
1836-1837

| Denomination | Intended | Revised | Shipped |
|---|---|---|---|
| $ 5 | 50,000 | 25,000 | 21,000 |
| 10 | 50,000 | 20,000 | 18,000 |
| 15 | 30,000 | 10,000 | 9,000 |
| 20 | 20,000 | 10,000 | 5,000 |
| 25 | 20,000 | 10,000 | |
| 50 | 20,000 | 10,000 | |
| 100 | 20,000 | 5,000 | |

The court minutes of Dec. 15, 1836 recorded the intended amount of dollar-denominated notes for Jamaica. [380] The actual amounts ordered, after a review, were recorded in the next meeting, on Dec. 21, 1836. [381] A subsequent entry on June 8, 1837 recorded the amounts shipped to Kingston for circulation. [382] Without access to the accounts for Jamaica and/or the superintendent's reports for 1837-1838, it is not possible to estimate the amount of circulation for Jamaica. The Barclays' Bank Centenary related that, "... the Colonial Bank, in the

existing conditions felt it undesirable to issue its own notes in Jamaica...". [383] It is clear from the court minutes, whatever the case was before 1838, that the Queen's Proclamation had altered things. The $5 notes were more than £1 sterling and required ten pence of British coins for their redemption. The new notes ordered on July 30, 1839 [384] were denominated in $6 (i.e., £1„5„-, a picture of one is published in the Barclays Bank Centenary) and $24 (i.e., £5) units. The simple alternative was to issue £1 sterling notes in Jamaica. This, however, had not been provided for in the charter.* No discussion for it is extant in the court minutes or could be found in the PRO. But a resolution was recorded in the court minutes of Aug. 30, 1842 instructing the manager in Jamaica, to issue the £1 bank notes sent to him. [385] An earlier letter is also extant from the bank's solicitors, Crowder & Maynard, to the Board of Trade dated Dec. 14, 1854 pointing out that, "... in those Colonies where the circulation is almost wholly in Sterling money the issue of notes [sic] for an uneven sum is found unconvenient". [386] The left-over dollar notes were kept by the engravers until 1848. An entry in the court minutes of May 2, 1848 instructed Perkins Bacon & Petch to "... deface and send [them] to the Bank to be destroyed". [386]

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*Footnote:The bank petitioned for the privilege to issue pound sterling notes on May 24, 1855--for inclusion in the new charter when the 1836 charter expired.

## (d) TERRITORIAL LIMITATIONS

The endowment of a Royal charter restricted the freedom of colonial banking companies in two other significant ways. A Royal charter specified the territory in which the company could operate and the life-span of the company.

The British Guiana charter, for example, specifically restricted the bank to operations in British Guiana.

> " The principal establishment of the bank [sic] shall be in Georgetown, and branches and agencies [sic] may be established in New Amerstadam and such other parts of the colony [sic] as... shall be found necessary." [324]

This was seen, earlier, as advantageous in raising capital. But restricting the operations of a colonial banking company to one colony deprived it of the full profits of financing external trade--intercolonial and international. Unable to operate externally, a bank was obliged to enter into correspondent arrangements and share the profits from the operations.

Although permitted to operate in the West Indies, the Colonial Bank had been precluded on the advise of Lord Glenelq from operating in the British colonies in North America. This constraint, imposed by the Royal charter, was a weakness which reduced the potential profits of the bank. In order to exploit the opportunities in intercolonial trade between the West Indies and, for example, Canada (discussed earlier in Diagram 1) the bank found it was obliged to secure correspondent relationships with other banks permitted to operate there. Leaving the

discussion of the actual agencies to the next section, it is worth noting from the archives the opportunity costs of the arrangements to the Colonial Bank. The Colonial Bank archives contain only the charges made for collections in the West Indies. Without access to the records of the Canadian banks, it is not possible to ascertain if there were any differences in their charges for collections made for the Colonial Bank. It is possible, nonetheless, to glean a substantial amount of information from the Colonial Bank archives alone.

The Colonial Bank charged its correspondents in Canada a substantially lower commission than was usual in the colonies. Two letters are extant in the Berbice letterbook for Sept. 1841. The first one sent to the directors in London on Sept. 21 shows that, "by the old [i.e., 1836] instructions we were desired to deduct 1/2% commission for collecting such Bills...". [387] The second letter, addressed to the Halifax Banking Company in Nova Scotia on Sept. 29, was even more specific: "... we hope to collect the amount and remit to you... after deduction of the usual commission on these transactions with your Bank 1/2% per Cent". [388] The key phrase here was 'with your Bank'. These charges were below the usual costs for collections in the colonies. The manager in Antigua explained on Jan. 1842 to a local customer that, "... the usual charge by the bank in such cases is 2 1/2% per Cent...". [389] Much earlier on Oct. 17, 1837, Peter Rose had written the directors protesting against the low charges for collections:

> "I beg to remark for the information of the Court of Directors that one half percent is quite inadequate for collecting paper of this description [i.e., sent from Canada]--10 percent is the legal charge of the Colony [British Guiana]--no Merchant will collect and remit for less than 5 percent--the Bank I think should charge at least 2 1/2% percent." [390]

The territorial limitations of the Royal charter precluded the exploitation of this opportunity. If the bank had been allowed to operate in Canada it would have been able to charge at least the 2.5% commission--this being lower than what even the merchants were prepared to work for. Because it was precluded from operating in Canada the bank had to enter into negotiations with local correspondents and agree upon a reciprocal charge perhaps reflecting the lower commissions in Canada. Without such reciprocity, its collections may not have been accepted by the Canadians. Whether this was the case or not is not as significant for the purposes of this discussion as the fact the Colonial Bank would have had to submit to such terms because of a strategic weakness in its charter.

Furthermore, opportunities in West Indian trade went beyond intercolonial boundaries. Banking was an international operation, including business with the United States, Cuba, Puerto Rico, St. Thomas, Mexico and Venezuela. The particular details of these branches or agencies will be discussed in the next chapter. The territorial restrictions contained in the Royal charter, are discussed here as a weakness which threatened the successful exploitation of such opportunities.

Had the charter really precluded operations outside the British Empire? Could a charter issued by the British Crown extend beyond its territorial sovereignty? The charter itself was of little help in answering these questions. It is not clear exactly what the charter permitted and/or precluded. In fact, unlike the monopolistic privilege, discussed earlier which depended upon the light of interpretation, the charter actually appeared to be contradicting itself. The preamble noted the bank's right to operate "... in the West Indies and British Guiana and elsewhere...". [250] The text of the charter, however, was manifestly different. It restricted the bank to operations "... in Jamaica and other West India Islands and British Guiana and not elsewhere...". To further confuse matters, the charter allowed branches and/or agencies to be established "... in the Islands of Jamaica and Barbados, and in such other Islands or places in the West Indies and British Guiana [underlining mine] as by them shall be considered expedient, with such Branches or Agencies... as may be found convenient". No deliberations are extant in the Colonial Bank archives to suggest that such questions had worried the directors. In the PRO, however, documents are extant which show that the Colonial Bank took counsel before opening branches in St.Thomas and Venezuela. The issue was brought to the attention of HMG, in 1841, by the solicitor who had negotiated the British Guiana Bank charter, John Innes. In a letter to the Colonial Secretary, Lord Russell, dated Feb. 19, 1841, he argued that the

bank had violated both the letter and the spirit of its charter by operating in Cuba, St.Thomas, and Venezuela.

> "The Colonists assert that both the letter + [sic] spirit of the Charter have been violated: that the Capital of the Bank instead of being employed for the exclusive benefit of the British West India Planters, as intended; is partly employed against them, in fostering foreign possessions, in some which Slavery continues to exist! ...It is submitted that Venezuela is not within the letter or spirit of the Charter + that St.Thomas altho' [sic] a West India Island is not within the spirit as it never could have been the intention of Government to confer privileges for the benefit of a foreign Colony especially of a Colony in which Slavery continues to exist! The privileges were granted to aid the British Planter in his endeavours to support himself under a system of freedom... besides which it never could have been the intention of the Government to limit the responsibility of Bankers who employ the funds at their disposal in Countries where the property is not under the protection of British Laws or the British Government." [391]

The Treasury added its own concern in a letter, dated March 8, 1841, to the Board of Trade.

> "... My Lords cannot but observe, that the proceeding on the part of the Company which has been brought to the notice of Her Majesty's Government by the communication from Mr. Innes, appears to them not only to be liable to the objections represented in that communication, but that it may also place the company in a situation to incur liabilities to an amount and of a nature in no respect contemplated when the Charter was granted." [391]

The seriousness of the charge can be discerned from the admission of the counsel, taken by the bank, that

> "if the establishment of such Banks in Foreign Countries should be considered as contrary to the terms imposed by the Charter on the Colonial Bank (which however we do not think the case) the Crown might take proceedings to annul the Charter". [392]

The Board of Trade referred Innes' letter to the bank for reply on March 9, 1841. The bank's reply, dated March 12, is extant in the PRO. The directors refused to offer any justification for their actions to the likes of Mr. Innes. They, however, submitted for the information of the Privy Council an opinion that they had secured, in May 1837, from two eminent counsel. The case is quoted in the Appendix. {392} The bank tried to explain in its own defence that the charter had not been designed so as to be restrictive. It had all been an unfortunate error.

> "The word <u>not</u> was introduced into the Draft Charter when under the consideration of the Law Officers of the Crown after it had been approved by the Board of Trade and it was not discovered till the Charter had actually passed the Privy Seal." [392]

This, however, is not corroborated by the the minutes of the Privy Council, dated April 13, 1836, approving the grant of a charter to the bank. The first condition imposed by the Privy Council was "that the business of the said Corporation should be confined to West India Islands and British Guiana". [331] Lord Glenelq's objections to the bank's operations in North America have already been cited as the reason for precluding the colonies in that region. [391] The Board of Trade had "... acquainted the Petitioners with the terms upon which a Charter would be approved by this Board, and the Petitioners thereupon submitted to their Lordship a Charter in which the above mentioned conditions are complied with". [331] The territorial restriction

was one of these conditions to which the bank had agreed. The Colonial Bank could not deny the potentially inherent weakness in its charter. Fortunately, the opinion of counsel had been favourable to the bank. Their opinion had decidely been that the bank was in the right to proceed, so long as they were not precluded by the laws of those sovereign states. The directors explained to the Board of Trade, in their letter of March 12, 1841, that, "on the faith of those opinions, the directors established branches at St.Thomas and in Venezuela". [392] This it appears was enough to silence the critics of the bank. The bank's counsel, Sir William Follet and Mr. Thomas Pemberton, noted the London Times of Sept. 11, 1847, were sufficient authority. [393] More about foreign branches and agencies will be discussed later.

## (e) LIMITED CORPORATE LIFE-SPANS

The restriction of a bank's life-span was also a potential weakness imposed by a Royal charter. Both the Royal charters granted to the British Guiana Bank and the Colonial Bank had an expiry date. Their respective life-spans were for 21 and 20 years. Crowder & Maynard, the solicitors who negotiated the Colonial Bank charter of 1836, explained to the Board of Trade in a letter dated Dec. 14, 1854 that, "the reason we believe for defining a limit at the time the Charter was granted was that the undertaking was to a certain extent experimental and it was

uncertain how it would succeed". [394] This was clearly also the case with the British Guiana Bank. Its charter stated that, "the Corporation may, for the period of 21 years from the 11th November 1836, carry on the business of bankers...". [324] It also made it absolutely clear what was to take place at the expiration of the charter:

> " On the termination of the term of 21 years the business so to be carried on by the Corporation shall cease, and the debts and engagements thereof shall be liquidated and discharged, and the assets and property sold, disposed of, and converted into money, and the surplus divided amongst the proprietors, according to their respective share and interest in the Capital thereof." [324]

Aside from the fact that the life-span of the Colonial Bank was only for 20 years, the above wording was a verbatim copy of the text of the Colonial Bank charter. The difference lay, once again, in the contradictory and misleading nature of the latter's wording. The wording in the charter--"... we have given these presents for us our heirs and successors...." and "... the Colonial Bank... shall have perpetual succession...."--had led many, even to this day*, to assume that the charter had been granted in perpetuity. That this was not the case should have been clear from subsequent clauses which gave the charter for only 20 years and enjoined--as in the case of the British Guiana

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*Footnote: At least this appears to have been the understanding of those who published the charter much later in 1917. [250] Notations, in the margin of the published charter, indicated the "Grant of Charter in Perpetuity".

Bank clause above--the dissolution of the company at the expiration of the charter. Although the directors and their solicitor recognized the need for a renewal of the charter, they were not prepared for the finality of the charter's injunction. They found it impossible to renew their charter. Crowder & Maynard began proceedings to renew the charter in Dec. 1854 by writing to the Board of Trade, announcing the intention of the bank to petition HMG for a renewal. This was resolved by the court on Jan. 23, 1855 and submitted to HMG on May 24, 1855, with a draft of a new charter. [395] By July 1855, they had succeeded in acquiring the consent of both the Board of Trade and the Treasury. [386] What the Board and Treasury, however, had failed to note was the integral weakness inherent in the charter. This was pointed out by the law officers of the Crown. [396] The charter could not be renewed! The law officers advised the court, through their solicitors, that the only way around the problem was to obtain the consent of every single shareholder. The court resolved on April 25, 1855 to call a special general meeting to obtain such a consent. [397] An advertisement was placed in the media on May 3, 1855, calling for a special general meeting on May 24th. [398] The meeting "... was a mere formal Meeting, and was very thinly attended". It failed to acquire the needed consent. Of the 20,000 shares issued only 18,500 had agreed. The objections of two shareholders made it impossible for the bank to apply for a renewal of the charter! The only alternative was to go to Parliament [399] for an act of

incorporation. The solicitors advised this at the court meeting of Nov. 7, 1855. [400] A petition to the House of Commons was drawn up and embossed with the corporate seal [401], on Jan. 2, 1856. If the Royal charter could not be renewed, there was really no other authority except Parliament who could overcome the objections of the law officers of the Crown. The act of Parliament, in turn, was not as easy as the directors had presumed it to be. In their report to the general meeting of July 11, 1855, the directors had optimistically asserted that, "... as no opposition is anticipated, we may expect that at the next Meeting we shall be a Corporation under the authority of Parliament". [402] At the next meeting, the directors were able to report that the act had received the Royal assent only one day before the 1836 charter was to expire. The reason:

> "The necessary application was made, and all appeared to be going on right, when the Treasury objected to, our getting an Act of Parliament, on the ground that there was a general Act for Bank Charters, and consequently we ought not to be allowed a separate one. This difficulty we fortunately surmounted; but our troubles were not yet over, for the House of Lords insisted upon inserting certain restrictions for the protection of the public, which had not been thought necessary by the Treasury and Board of Trade. Thus, between those Boards and the House of Lords, we hardly knew where we were. Having at length got over all these difficulties, we obtained our Act, but only just in time." [402]

The possession of a Royal charter was a strategic strength. But its potentially fatal limitations and restrictions can not be ignored or minimized in considering its strategic strengths and weaknesses.

# CHAPTER VI

# THE STRENGTHS AND WEAKNESSES OF MULTI-BRANCH BANKING

## (1) SINGLE VERSUS MULTI-BRANCH OPERATIONS

The structure of West Indian colonial banking was characterized by single/multi-colony, as well as, single/multi-branch operations. The British Guiana Bank, for example, was a multi-branch, single-colony bank. It commenced business in Demerary on Feb. 16, 1837, followed by its Berbice branch on March 6, 1837. The Colonial Bank, on the other hand, was a multi-colony as well as a multi-branch operations.

A single-colony bank was seen, in the previous discussions, to have received more approbation from the colonists. Its capital requirements were smaller and, therefore, easier to raise. It was also more manageable. The directors of the West India Bank [403], for example, noted the lack of competent and reliable managers as the greatest constraint to their expansion. Besides its head-office in Barbados, it could only manage 7 other branches (St.Kitts, Nevis, St.Vincent, Grenada, Antigua, Tobago, and Trinidad).

Each organizational difference, of course, implied a different set of strengths and weaknesses. Previous discussions have already touched upon the advantages and disadvantages of single-colony operations. This chapter will seek to look at multi-colony operations, which perforce must have also been

multi-branch operations.

A multi-colony operation first had to overcome geographical problems. The West India Bank promoters had to devise a complex system of local committees to launch their business. [404] On the other hand, a multi-colony organization had access to a wider source of capital and could serve a larger market. It did not need to share its profits with agents in order to overcome its territorial limitations. Both the British Guiana Bank and the Colonial Bank retained agents in Paris, Amsterdam, and New York. The British Guiana Bank, however, also had to employ the services of an agent (the private bankers, Smith, Payne, and Smith) in London. [405] The Colonial Bank, of course, did not need to share its commissions and revenue in London with anyone else. More will be said about the weaknesses of agents later. These opportunity costs of an agent had to be placed against the capital needed to establish an additional branch. This was even more critical when the capital was invested in buildings and fixtures. In the previous discussion of capital allocations, Peter Rose, the Colonial Bank manager in Demerary, was seen to be arguing against the strategy of starving larger branches to maintain smaller 'unprofitable' ones. [406] Rose could not avoid being sub-optimal in his conclusions. His branch wanted more capital which he assumed was unprofitably allocated to the minor branches. Neither did he possess the accounts and the relevant data to be able to form an overall picture. Such data was only available to the superintendent in

Barbados and the directors in London. They, in turn, made the decisions to open, maintain, and/or close branches. Unfortunately, neither the Colonial Bank's internal financial statements before 1845, nor the report of the superintendent upon which it was based, have survived. Consequently, it is not possible to analyze the incremental contributions to overall revenues and costs as the branches were opened. The accounts for the Berbice agency and the Antigua branch for 1837-1839 are extant but give only an isolated look at the operations of a branch and an agency. There is not enough there to draw significant conclusions about the branch network as a whole. The data after 1845 is extant and provides an estimate of the strengths and weaknesses of multi-branch operations. But before that a glance is, once again, necessary at the scope of the bank's operations.

## (2) THE BRANCH NETWORK OF THE COLONIAL BANK

The accounting manual, published in 1839, for the use of the branches (called appropriately the 'bookeeping system' of the Colonial Bank) also began its discourse from this vantage point :

> " For the better understanding of what follows, it may be useful to bear in mind, that the whole Establishments of the Colonial Bank in the West Indies, are divided into three separate Districts,--namely, the Barbados District,--St.Thomas District,--and the Jamaica District;--that the Branch at Barbados, at St.Thomas, and at Kingston (Jamaica), are generally called Principal Banks, or Principal Branches, and that each District has its separate or subordinate Branches." [407]

McChlery's manual or HandBook for Managers, written in 1836, cited two sub-branches, in Demerary and Trinidad. [408] The official notice of commencement of operations sent to the Colonial Office on May 18, 1837 also only mentioned these two sub-branches. [376] The court minutes of Jan. 30, 1837, however, recorded the appointment of managers to be at Antigua, St.Kitts, Tobago, Grenada, St.Vincent, St.Lucia, and Dominica. Because the branches were not officially opened these individuals were designated, for the time being, as agents of the bank. [409] According to the chairman's report at the first general meeting of shareholders on July 3, 1837, a sub-branch had been opened in St.Vincent. August 1, 1837 saw the opening of branches in Grenada, Antigua, Tobago, St.Kitts, Dominica, and St.Lucia as well as foreign agencies in Porto Rico and St.Croix. By Jan. 1838, another sub-branch had opened in Montego Bay, Jamaica, while agents had been appointed in Falmouth, Savanna-La-Mar, Morant Bay, Jamaica; New York; and the British North American colonies. [410] The court minutes for May 10, 1838 recorded the commencement of operations in Martinique and the appointment of an agent in Paris, France, to service Martinique's trade with Europe. The court minutes of June 15th, and 22nd, 1838 recorded the appointment of agents in St.John's, New Brunswick, and Halifax, Nova Scotia, respectively. [411] With the appointment of agents in Guadaloupe and Havana, Cuba, on Aug. 14, 1838, the Colonial Bank acquired access to a major portion of the markets

TABLE 13
CUMULATIVE OPENING & CLOSING
OF COLONIAL BANK BRANCHES
1836-1839

| Year | Barbados District | Jamaica District | St.Thomas District | Foreign Agencies |
|---|---|---|---|---|
| 1836 | *Barbados<br>*Demerary<br>*Trinidad | *Kingston | *St.Thomas | |
| 1837 | *Berbice<br>*St.Vincent<br>*Grenada<br>*Antigua<br>*Tobago<br>*St.Kitts<br>*Dominica<br>*St.Lucia | *Mo. Bay<br>Falmouth<br>Sav-La-Mar<br>Morant Bay | *Porto Rico<br>*St.Croix | New York<br>Quebec<br>Montreal<br>Toronto |
| 1838 | English Harbour<br>(English Harbour) | | *Caracas | (Guadaloupe)<br>Martinique<br>Paris, Fr.<br>Havana<br>Nova Scotia<br>New Bruns'k |
| 1839 | Nevis | (Morant Bay) | | |
| Total | 12 | 4 | 4 | 9 |

( ) = closed
* = Branches accounted for in the financial data 1845-1850 All others subsumed into the London Office accounts. Decision to close the Tobago branch reached on April 25, 1845. Converted to an Agency in June 1846. [494]

of the new world. Table 13 shows the cumulative increase in the number of Colonial Bank branches between 1836-1839. The scope of the bank's operations can be seen from the fact that there were as many foreign agencies as there were branches in the Jamaica and St.Thomas districts.

## (a) THE INITIAL COSTS OF OPENING BRANCHES

Each branch opened by the Colonial Bank incurred 3 initial start-up costs:

1. bank premises,
2. furniture and fixtures, and
3. salaries.

Salaries were an operating rather than a capital cost and will be the subject of another chapter. The others give an idea of how much initial capital had to be committed for each additional branch opened. No fixed policy appears to have existed in the Colonial Bank for the rent or purchase of suitable buildings for the establishment of branches. A definite policy, however, existed for the fixtures demanded by security considerations. The court minutes of Feb. 1, 1837 resolved to provide each branch with:

--an iron door,

--another light iron-grated door,

--iron window shutters,

--an iron safe, and

--an office clock [412]

(i) FIXTURES

Doors were required for the strong room stipulated by the Instructions.... issued in July 1837 to each manager:

> "A strong room will be erected at each of the Principal Banks, and also at such of the subordinate Branches where prudence and other circumstances may require.- The Strong room will be divided into an inner and outer apartment--the inner will be called the Treasury, and the Outer the safe." [408]

The court minutes of April 29, 1845 noted that the new iron roof and window shutters required for Barbados would cost £35-£40.

The court minutes of Dec. 15, 1836, on the other hand, recorded the shipment of 3 iron safes to Tobago, Grenada, and St.Vincent. [413] Being locally unobtainable, these fixtures had to often be shipped long distances, adding to their capital cost. The agents in Berbice, for example, wrote on May 12, 1837 to Peter Rose in Demerary that:

> " We have purchased from Mr. A. M$^{c}$Donato an Iron Chest which is the only one we can hear of for sale. We shall endeavor to procure one more but if we cannot succeed we will request you to try and get us one [from London]." [414]

The committee for general purposes noted at its meeting of Aug. 2, 1837 that the strong room, the furniture, and fittings at Kingston, Jamaica, should be valued at £800 for insurance purposes. [415] Of this total, more than a £144 had been spent to ship the iron doors, windows, and shutters from London! [416]

The iron doors and the safe for the London Office,

purchased from a Charles Chubb, were recorded in the court minutes of Dec. 7, 1837 as costing £326„17„5. Clearly, at such costs the furnishing of a new branch was not an inexpensive proposition. The major investment, however, was required to secure the suitable premises to house them.

(ii) PREMISES

In his visit to the colonies, James M$^{c}$Queen had been instructed by the court of directors to find suitable premises for the branch in Jamaica. The court even allocated £5000. [417] The Royal Gazette of British Guiana reported on Sept. 8, 1836 from Jamaica, that:

> "Mr. MacQueen [sic] has purchased the premises lately belonging to Mr. Willock, extending from Harbour to Port Royal Street, for the sum of five thousand pounds. These premises, from the central situation, and having two fronts render the purchase a most eligible one." [418]

The unsuccessful application of the bank to exchange an expensively decorated small dwelling in Barbados for the military Commissariat store and cash department is recorded, in detail, in documents extant in the PRO. [419] The dwelling therefore had to be converted into a bank at an expense of more than £3750! [420] The premises in Demerary were recorded in the court minutes of Dec. 8, 1836 as costing more than £3500. [420]

Even where the bank did not purchase its premise but acquired its lease, an initial capital outlay was necessary. Albeit in London, the lease for the premises in Bishopsgate was

acquired on Aug. 17, 1837 for £800. [421] Nearly an additional £1100 were spent in redecorating and furnishing the London office! [422]

Although detailed figures are impossible to estimate, even a cursory summation of the above figures suggest that the bank may well have had to expect anywhere between £300-£800 for fixtures and £2000-£5000 for premises--whether leased or purchased. Taking the average of these two extremes, the cost of an additional branch could well have been close to $20000 or:

| | |
|---|---|
| For Premises | £3500 |
| For Fixtures | 550 |
| Total | £4050 |

Such high outlays, in turn, would have reduced the ability of the colonial banker to open and close branches in respect to the marginal performance of the business.

A special committee appointed by the court, for example, met on Sept. 17, 1843 to consider the closing of unprofitable branches--including the principal branch in Barbados. Its conclusions confirm the above expectation:

> " The Committee having had under consideration the results of the business for each half year, from 30 June 1841 to 30 June 1843, both inclusive... find that at some of these Branches the business has resulted in actual loss; whilst at others the net profit has not been adequate to the risk, and the interest on the capital employed. Notwithstanding these unprofitable results, the Committee are unwilling to recommend the adoption of any immediate or decisive steps for closing any of these Branches, as they perceive many unfavourable effects which might arise from such a course...." [423]

The network of branches had invaluable synergistic

advantages which made it strategically unwise to dismantle the whole, even if particular branches were not profitable. The synergy lay in the fact that as a whole network the bank stood to gain more than the sum of its individual branches. This was clear, for example, in the ability of the bank to secure the War Departments' Commissariat business throughout the West Indies--described in detail in the next section.

Furthermore, a branch once established became an on-going operation with both payables as well as outstanding receivables. In closing a branch, the receivables--i.e., bad debts, discounts, loans, etc.--were not as easy to settle as the payables--i.e.,deposits and bank notes. When the Colonial Bank contemplated closing the Berbice branch in 1849 it found it had to leave the accountant behind to deal with the gradual winding-down of the business. A letter is extant, dated Feb. 7, 1849, in the Berbice letterbook from the manager, Thomas Nimmo, to the accountant, instructing him to close the branch. It is clear from the letter that winding-down the business involved a rapid reduction of the income generating operations, such as the exchange, discounts, and intercolonial transfers, while having to wait in order to collect the outstanding receivables. This, Nimmo explained, could take a long time:

> " You are aware that you are to be left in charge, and, as there are many matters outstanding in the settlement of which your presence will be useful and necessary, it is more than probable that you will continue here for a considerable time." [424]

In the case of the branch in St.Croix, the court minutes recorded the decision to close it on Nov. 28, 1843. [425] On Aug. 15, 1848, the court was still reminding the manager at St.Croix "... not to enter into any new transactions, but to confine himself to the recovery and remittance of outstandings--and to... close that Branch as soon as practicable, diminishing the expenses as the transactions were run off". [426] In the meanwhile, of course, the costs of running the branch were continuing to add-up. The longer it was necessary to keep a branch open in order to collect its receivables, the more expensive it became to close down the branch. At the end of three months, the accountant left in Berbice, Robert Barnes, wrote to the directors:

> "I think it highly desirable that the Bank should thus recommence business, the collection of the outstandings must take a long time, and it is far better that the little good business offering should be in our hands than that we should be supporting an establishment almost as expensive and no profits accruing." [427]

## (b) THE COST OF AGENCIES

Unlike branches, new agencies required little or relatively modest outlays of capital. They also required relatively little sacrifice to wind-up, particularly if their scope of operations were small or limited. The Antigua letterbook contains an account of both the opening and closing of an agency at English Harbour. William Thompson, the manager in Antigua, first advised London on June 1, 1838 that he had

appointed a Mr. Joseph Black at English Harbour as the bank's agent and had sent him $1000 in bank notes and $1000 in British silver to exchange for dollars brought there. By Sept. 7, 1838, Thompson was writing to the superintendent that "the agency at English Harbour is doing little and I fear will not be worth continuing...". [428] On April 1, 1839 [429], he wrote again to the superintendent that, "the Business doing by our English Harbour Agency is so little that I think it had better be withdrawn". This decision was then communicated to Mr. Black, without any ado on April 17:

> " In consequence of the insignificance of the business of Your Agency the Bank is desirous that the same should be withdrawn. I have therefore to request that you will close Your business as Agent of the Bank forthwith and that you will settle your Account with the establishment as soon as possible." [430]

The Colonial Bank maintained similar agencies in Europe, North and South America. This was partly due to the territorial limitations in its charter, discussed in the last chapter. These limitations, in turn, imposed a cost upon the bank in the form of having to share its revenues with the agent. But by appointing agents, instead of establishing branches, the bank, at times, could avoid the heavy intial capital outlays. With some large agencies, such as that in Berbice, however, the bank supplied iron safes, etc., paid the salaries of some of the agent's staff and even subsidized the costs of running the agency. But even in such cases, the majority of the costs were

operating expenses rather than capital outlays. The ultimate profitability, of course, lay in whether the savings in the initial outlay were greater than the share of the stream of revenue due to the agent.

(i) THE COSTS OF CLOSING AN AGENCY : BERBICE

The appointment of agents, particularly larger ones, involved another managerial risk. Being more independent of the bank than branches, agents were more susceptible to failures. They could not be as strictly controlled by the bank nor expect to receive as much support when they ran into trouble.

Agencies were more often than not either individuals and/or partnerships. Their reputation and reliability were therefore only as good as those individuals. Individuals, however, had a prescribed working life-time and partnerships carried the risks of failure or being wound-up if and when one of the partners withdrew. The Colonial Bank, for example, was concerned about the change in the partnership of its agent in New York, when the Kennedys withdrew, forcing the company to reform as Maitland Phelps & Co. The court minutes of Oct. 5, 1847 noted:

> "That by direction of the Deputy Chairman he [i.e., the secretary] yesterday called upon Mess$^{rs}$.[sic] Reid Irving & Company to ask them, confidentially whether it would be safe to leave the Bank Agency at New York, in the hands of Mess$^{rs}$. Maitland Phelps & Company, when he saw Mr. Milligan who informed him that he (Mr. Milligan) thought it would be safe.... Under these circumstances the Deputy Chairman did not consider it necessary to make any change in the New York Agency at present." [431]

The difficulties of the Colonial Bank with the agency in Berbice, between 1837-1844, are an even more illustrative example. The agents, Robert Semple & Co., were appointed at the court meeting of Jan. 30, 1837. [432] The notice of the commencement of business, in Demerary and Berbice, appeared in the Royal Gazette of British Guiana on May 2, 1837. [433] The agents received their iron safe and 2 iron chests from London on Nov. 4, 1837. [434] But from the beginning, it was clear that they were more merchants than bankers. Peter Rose, the manager in Demerary, explained to the directors and the superintendent that the Berbice abstracts (i.e., their weekly reports) were not well prepared because of the lack of training, on the part of the agents, as bankers! [435] Furthermore, as merchants, Robert Semple & Co. were active in business and, inevitably, became both agent and customer of the Colonial Bank. The extant Berbice ledger accounts for 1837-1840 contain the actual cash credit accounts, by customers, for the Berbice agency. Among them, of course, are to be found the accounts belonging to the agents, themselves. These accounts have been used to construct Tables 14 and 15, showing the share of the cash credits advanced to themselves as well as its change over time.

It is clear from Table 14 that the agents advanced an average of 44% of the total cash credits to their own company. No other customer was accorded any advances close to even their lowest share of 29%. Between Dec. 1839--Dec. 1840, for example,

TABLE 14
THE % SHARE OF CASH CREDITS
ADVANCED BY THE BERBICE AGENTS OF THE COLONIAL BANK
ROBERT SEMPLE & CO.
BY CUSTOMERS
1837--1840

| J=JUNE & D=DEC. 18.. | J37 | D37 | J38 | D38 | J39 | D39 | J40 | D40 |
|---|---|---|---|---|---|---|---|---|
| ROBERT SEMPLE & CO | 0 | 58 | 43 | 29 | 36 | 49 | 48 | 43 |
| C D LYLE & CO | 0 | 5 | 3 | 2 | 2 | 2 | 2 | 2 |
| C FALOON | 0 | 7 | 4 | 0 | 1 | 0 | 0 | 0 |
| WILLIAM ROSS | 0 | 7 | 0 | 0 | 0 | 0 | 0 | 0 |
| PLANTATION NEW FOREST | 0 | 0 | 2 | 1 | 1 | 1 | 1 | 1 |
| T COLEMAN | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| J CAMERON | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 |
| M GILLIS & CO | 0 | 16 | 10 | 7 | 3 | 0 | 1 | 0 |
| PLANTATION ADELPHI | 0 | 0 | 4 | 3 | 2 | 0 | 0 | 0 |
| DONALD ROSS | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| CAMERON & KIRKWOOD | 0 | 0 | 2 | 4 | 3 | 0 | 0 | 0 |
| R J BINNING | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| WILLIAM FRY | 0 | 0 | 6 | 3 | 2 | 0 | 0 | 0 |
| WOODLEY PARK | 0 | 0 | 3 | 3 | 1 | 0 | 0 | 0 |
| PLANTATION MARA | 0 | 0 | 0 | 2 | 2 | 0 | 0 | 0 |
| D C CAMERON JR. | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| J DALY | 0 | 0 | 2 | 1 | 1 | 1 | 1 | 3 |
| M DALY | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 1 |
| S FRASER | 0 | 0 | 2 | 3 | 3 | 0 | 4 | 6 |
| PLANTATION KELDON | 0 | 0 | 3 | 2 | 1 | 0 | 0 | 0 |
| PLANTATION LUIDWYK | 0 | 0 | 2 | 1 | 1 | 1 | 1 | 1 |
| PLANTATION PROVIDENCE | 0 | 0 | 6 | 4 | 3 | 9 | 6 | 8 |
| PLANTATION FOWLIS | 0 | 0 | 2 | 4 | 1 | 2 | 1 | 1 |
| PLANTATION FRIENDS | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 |
| A R HOLLINGSWORTH | 0 | 0 | 3 | 2 | 0 | 0 | 0 | 0 |
| A MCDONALD | 0 | 0 | 1 | 1 | 0 | 0 | 1 | 1 |
| PLANTATION ROSE HALL | 0 | 0 | 0 | 2 | 2 | 2 | 3 | 6 |
| PLANTATION BELLE VUE | 0 | 0 | 0 | 0 | 1 | 2 | 2 | 3 |
| NEW A MCDONALD | 0 | 0 | 0 | 4 | 2 | 2 | 0 | 0 |
| PLANTATION NEW GLADSTONE HALL | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| PLANTATION SCHEPMOED | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PLANTATION HIGHBURY | 0 | 0 | 0 | 0 | 2 | 3 | 3 | 4 |
| PLANTATION GOLDSTONE | 0 | 0 | 0 | 1 | 1 | 1 | 2 | 2 |
| PLANTATION WATERLOO | 0 | 0 | 0 | 0 | 1 | 1 | 2 | 2 |
| BENFIELDS ESTATES | 0 | 0 | 0 | 1 | 1 | 2 | 1 | 2 |
| ANNA ST FELIX | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| PLANTATION EVERTON | 0 | 0 | 0 | 2 | 2 | 1 | 1 | 1 |
| ESTATES OF JAMES BLAIR | 0 | 0 | 0 | 7 | 6 | 6 | 6 | 0 |
| ANDREW ROSS | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 |
| PLANTATION DANKBAARHEID | 0 | 0 | 0 | 2 | 1 | 1 | 1 | 1 |
| PLANTATION ALNESS | 0 | 0 | 0 | 1 | 4 | 0 | 0 | 0 |

TABLE 14 CONT'D

| J=JUNE & D=DEC. 18.. | J37 | D37 | J38 | D38 | J39 | D39 | J40 | D40 |
|---|---|---|---|---|---|---|---|---|
| PLANTATION PROSPECT | 0 | 0 | 0 | 1 | 1 | 2 | 1 | 0 |
| VESTRY OF ST PATRICK | 0 | 0 | 0 | 1 | 1 | 1 | 0 | 1 |
| H WELCHMAN | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| L P HENERY | 0 | 0 | 0 | 2 | 2 | 1 | 1 | 0 |
| PLANTATION PHILADELPHIA | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 |
| PLANTATION VRYHEID | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| PLANTATION HOPE & EXPECTATION | 0 | 0 | 0 | 1 | 2 | 1 | 1 | 1 |
| S DAWSON & CO | 0 | 0 | 0 | 0 | 2 | 3 | 4 | 4 |
| S FIREBRACE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| PLANTATION NEW FOWLIS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Source : Berbice Ledger Accounts

TABLE 15
% GROWTH IN THE CASH CREDITS ACCOUNTS
ADVANCED BY THE BERBICE AGENTS OF THE COLONIAL BANK
ROBERT SEMPLE & CO
BY CUSTOMERS
1837-1840

| J=JUNE 18.. | J37 | D37 | J38 | D38 | J39 | D39 | J40 |
|---|---|---|---|---|---|---|---|
| D=DEC. 18.. | D37 | J38 | D38 | J39 | D39 | J40 | D40 |
| R. SEMPLE & CO | 100 | 11 | 29 | 70 | 12 | 23 | -34 |
| C D LYLE & CO | 100 | -4 | 31 | 14 | -18 | 4 | -12 |
| C FALOON | 100 | -21 | -100 | 100 | -100 | 0 | 0 |
| WILLIAM ROSS | 100 | -100 | 0 | 0 | 0 | 0 | 0 |
| PLTN. NEW FOREST | 0 | 100 | 4 | 4 | 4 | 23 | -15 |
| T COLEMAN | 0 | 100 | 59 | 3 | -100 | 0 | 0 |
| J CAMERON | 100 | -100 | 0 | 0 | 0 | 0 | 0 |

TABLE 15 CONT'D

| J=JUNE 18.. D=DEC. 18.. | J37 D37 | D37 J38 | J38 D38 | D38 J39 | J39 D39 | D39 J40 | J40 D40 |
|---|---|---|---|---|---|---|---|
| M GILLIS & CO | 100 | -6 | 34 | -48 | -72 | 0 | -100 |
| PLTN. ADELPHI | 0 | 100 | 21 | 4 | -100 | 0 | 0 |
| DONALD ROSS | 0 | 100 | 291 | 3 | -50 | 126 | -100 |
| CAMERON & KIRKW'D | 0 | 100 | 316 | 5 | -32 | -100 | 0 |
| R J BINNING | 0 | 0 | 0 | 100 | -12 | 0 | 7 |
| WILLIAM FRY | 0 | 100 | -15 | 4 | 3 | -100 | 0 |
| WOODLEY PARK | 0 | 100 | 105 | -53 | -100 | 0 | 0 |
| PLTN. MARA | 0 | 0 | 100 | 26 | -100 | 0 | 0 |
| D C CAMERON JR. | 0 | 100 | 13 | -8 | -100 | 0 | 0 |
| J DALY | 100 | 100 | 50 | -4 | 15 | 32 | 86 |
| M DALY | 100 | -100 | 0 | 100 | 45 | -26 | -23 |
| S FRASER | 0 | 100 | 182 | 54 | 52 | -29 | 22 |
| PLTN. KELDON | 0 | 100 | -11 | -14 | -100 | 0 | 0 |
| PLTN. LUIDWYK | 0 | 100 | 2 | 3 | -19 | 4 | 4 |
| PLTN. PROVIDENCE | 0 | 100 | 41 | 15 | 120 | -19 | 3 |
| PLTN. FOWLIS | 0 | 100 | 228 | -60 | 40 | -44 | 0 |
| PLTN. FRIENDS | 0 | 0 | 0 | 100 | -100 | 0 | 0 |
| A R HOLLINGSWORTH | 0 | 100 | 19 | -100 | 0 | 0 | 0 |
| A MCDONALD | 0 | 100 | 73 | -100 | 0 | 100 | 4 |
| PLTN. ROSE HALL | 0 | 0 | 100 | 89 | -30 | 130 | 25 |
| PLTN. BELLE VUE | 0 | 0 | 0 | 100 | 97 | 27 | -17 |
| NEW A MCDONALD | 0 | 0 | 100 | -27 | -33 | -100 | 0 |
| PLTN. NEW GL'DN HALL | 0 | 0 | 100 | -100 | 0 | 0 | 0 |
| PLTN. SCHEPMOED | 0 | 0 | 0 | 100 | -100 | 0 | 0 |
| PLTN. HIGHBURY | 0 | 0 | 100 | 1524 | 24 | 34 | 3 |
| PLTN. GOLDSTONE | 0 | 0 | 100 | 243 | -12 | 89 | -18 |
| PLTN. WATERLOO | 0 | 0 | 0 | 100 | -7 | 127 | -12 |
| BENFIELDS ESTATES | 0 | 0 | 100 | 140 | -11 | 1 | -7 |
| ANNA ST FELIX | 0 | 0 | 0 | 100 | -28 | 145 | -92 |
| PLTN. EVERTON | 0 | 0 | 100 | 50 | -48 | -20 | 4 |
| ESTATES OF J. BLAIR | 0 | 0 | 100 | 19 | -9 | 28 | -100 |
| ANDREW ROSS | 0 | 0 | 0 | 100 | 192 | 5 | -60 |
| PLTN. DANKBAAR'D | 0 | 0 | 100 | -10 | 19 | 2 | -49 |
| PLTN. ALNESS | 0 | 0 | 100 | 540 | -91 | -89 | 12 |
| PLTN. PROSPECT | 0 | 0 | 100 | 27 | 34 | -29 | -100 |
| VESTRY OF ST PAT'K | 0 | 0 | 100 | -13 | 28 | -81 | 129 |
| H WELCHMAN | 0 | 0 | 100 | -22 | -77 | 25 | -100 |
| L P HENERY | 0 | 0 | 100 | 9 | -30 | -14 | -100 |
| PLTN. PHILADEL'IA | 0 | 0 | 100 | 53 | -37 | 43 | -26 |
| PLTN. VRYHEID | 0 | 0 | 100 | 332 | 24 | 0 | 3 |
| PLTN. HOPE & EXP'TN | 0 | 0 | 100 | 186 | -42 | -48 | 2 |
| S DAWSON & CO | 0 | 0 | 0 | 100 | 71 | 54 | -40 |
| S FIREBRACE | 0 | 0 | 0 | 0 | 0 | 100 | 1917 |
| PLTN. NEW FOWLIS | 0 | 0 | 0 | 0 | 0 | 0 | 100 |

Robert Semple & Co. shares were still above 40% while no other customer's share reached 10%!

Table 15, on the other hand, shows the percentage change in the cash credit advances made by the agents between 1837-1840. Negative percentages, of course, represented a reduction in the gross advances. It is significant that Robert Semple & Co. are the only account from June 1837--June 1840 which had consistently had a net increase in its advances, every half-year. J. Daly, Plantation New Forest, Plantation Highbury and Vryheid had also received steadily increasing advances. Plantation Highbury, in fact, had the second largest (after S. Firebrace) percentage increase. But none of these amounts were ever a large share of the total advances. J. Daly's balance, from Table 14, was never greater than 2% of the cash credits before December 1840, while, Plantation Highbury's enormous percentage increase had merely moved its share from less than 1% to a mere 2%. These were comparatively small amounts in relation to the 36% share maintained by Robert Semple & Co. for the same period.

The increasing indebtedness of Robert Semple & Co. was not the only worry of the bank. With foreknowledge of the intentions of the bank, the agent was in a tempting position to deal for his own account. For example, with the foreknowledge that the bank was soon going to purchase/sell bills and thereby push the exchange up/down, in say Demerary, the agents could sell/purchase bills in their private capacity (perhaps even to

the bank) and earn a certain profit later in Demerary. For example, before the exchange shifted, assume that a bill for £100 could be purchased for $480 in Demerary and Berbice. Assume because of the increased demand generated by the bank's intervention, in Demerary, a bill for the same amount of sterling could be sold for say, $500. By buying £100 at $480 in Berbice and reselling it at $500 later in Demerary, the agents could earn a private profit equal to the difference, less any loss of interest due to the different usuances for the bills. It is extremely difficult from the extant data to ascertain whether they were doing so. But the temptation was no doubt there and the manager in Demerary certainly believed this to be the case. The Berbice letterbook contains a denial on March 30, 1839 by the agents of having sent such a bill for sale to Demerary:

> "The Bill for £2000 in our Private capacity was not for a remittance on our account but to pay for a fish cargo from James Hunter & Company Greenoak and we regret now that the Bill had not been drawn in their favour, as you seem to be under the impression that we had taken this Bill knowing that the Exchange would go up with you--which we assure you was not the case--James Kirkwood pp Notes and W. Campbell Notes were certainly discounted by us for money and we conceive we are entitled to some accommodation in our private capacity when we pass the whole of our Business through the Bank, as you disapprove of our having done so however we shall be more careful in future." [436]

Even if true, closing down an agency was neither easy nor without its costs. In his letter to London, dated April 20, 1839, Peter Rose explained why he had not been able before to make "... up my mind... that... they ought not to be continued

as Agents of the Bank...". Robert Semple & Co. owed more to the Parent bank than the Demerary branch--see Table 17 later for the actual amount owed. Furthermore, "... were their influence [locally] withdrawn from the Bank there can be no doubt but that its active business would become absolutely nothing-". [437]

Robert Semple & Co. acknowledged in a private letter dated April 27, 1839 that Rose intented, "... closing altogether this Branch of the Colonial Bank, principally in consequence of the unsatisfactory state of the Cash Credit Accounts". [438] Promising to continue their support of the Colonial Bank, either way, Robert Semple & Co. suggested the deadline for closing the agency be moved from that proposed by Rose, Sept. 30, to Dec. 31, in the meanwhile promising to bring down their debts to the bank--insinuating that Rose would not be successful should he seek to collect the outstanding debts from the agents before that date. Rose reported to London on May 17, 1839 that the senior partner in Robert Semple & Co., George Laing, had tried "... to induce me to continue the Branch for some time longer, so as to give it another trial...". [439] Rose soon found he had no choice. His report to London dated, July 27, 1839, noted:

> "The remuneration allowed after paying the Cashier [who was appointed and worked for the Colonial Bank rather than the agents] and House rent is so small that it would not (in this Colony where living is daily becoming more expensive) be sufficient for any one to depend solely upon, and of those having other business, I know none less liable to objections than Semple & Co.-- If they are not exactly what I could wish they are at least the best whose services I can procure." [440]

Temporary reprieve had merely postponed the bank's dilema. Time did not, in this case, ameliorate the underlying problems of the agency. But dismissal of the agents would not have been the correct strategy either. Writing-off the outstanding debts of the agents was not a desirable option for the directors. A measure of the difficulty of the decision can be discerned from the fact that the court could not reach a decision and had to send the problem to a special committee [441] who, in turn, passed it on to the standing committee for correspondence. Before the committee could deliberate the issue, however, Rose had suggested a compromise. The committee, in their report, dated Feb. 26, 1841, noted that:

> "... it would be preferable to have a Bank Officer as Manager, but nevertheless upon consideration of the present circumstances of the case they deem it most expedient to recommend to the Court to confirm Mr. Rose's nomination of Mess$^{rs}$. [sic] Laing Bro$^{s}$ & Co. [sic] as Agents in place of the late Firm of Robert Semple & Co." [442]

Rose had suggested a classical compromise. The undesirable agent was to be replaced by another, Laing Brothers & Co., who were prepared to assume the debts of the former. Although the bank would not be free of agents, it would now acquire another signature or guarantor to the debts owed by Robert Semple & Co. Laing Brothers & Co. were wealthy and owned at least several plantations. [443] Such a compromise would have been strategically advantageous but for the peculiar nature of colonial commerce, discussed earlier. In the small colonial

economy, the fortunes of the merchants were intertwined. George Laing had been a senior partner of Robert Semple & Co. all along! In so far as this had been as an individual, without the larger wealth of his family to support it, there was a strategic gain for the bank. The undertaking of Laing Bros. & Co. to guarantee the debts of Robert Semple & Co. now meant that their joint wealth would be offered as additional security to the bank.

But while this may have been satisfactory in terms of added security, it provided little hope of a better management of the agency. George Laing continued to manage the business of the Bank. [444] In this respect, only the name had changed! The underlying problems of the agency continued to worry the directors in London.

As early as their letter of Nov. 29, 1841, the agents were once again admitting that, "we observe the Directors do not approve of our large private transactions and liabilities with the Bank". [445]

In a letter, dated March 5, 1842, addressed to the Court, Laing Brothers & Co. attempted a final desperate bid to defend themselves:

> "From what you state it would appear that the Directors are not satisfied with the explanations we give them respecting the liabilities we appear under at the Bank here and as they cannot be properly informed with the nature of the Business which as Merchants we require to do the Bank we take the liberty to make the following statements for their information." [446]

Their operations as merchants, they explained, consisted of

advancing money to plantations in anticipation of produce. This, in turn, was financed by the sale of their own bills on the ultimate customer of the produce in London or endorsement of the planter's bills on London. Of their $40,000 per month of advances, 3/4ths was geared from periods of 3-6 months. Hence the large balances which continued to accumulate! Such explanations were not well received by the court. The standing committee in charge of overseeing branches and agencies recommended at its meeting of Aug. 10, 1842 that the accountant in Demerary, Thomas Nimmo, be confirmed by the court as the new manager of Berbice. [447] In the meanwhile the court continued to urge Laing Brothers & Co. to reduce their indebtness to the bank.

The lack of the relevant accounts between 1840-1844, unfortunately precludes any precise estimate of the outstanding debt of the agents to the Bank. The extant Berbice ledger accounts for 1837-1840, however, reveal the initial debts accummulated by the agents which had alarmed Peter Rose and the directors in London. Table 16 shows the half-yearly balances due the Colonial Bank. Although, reduced at each second half-year (i.e., between June and December) the underlying trend was clearly upward. These figures gave rise to the comment by Rose, referred to earlier [437], that the agency owed more money to the parent bank than the Demerary branch. Table 17, on the other hand, shows why 1838 was a turning point in the resolve to terminate the agency at Berbice and explains the private letter

written by Rose (referred to earlier). [448] Unlike Tables 14 and 15 which were based upon the gross advances made by the agent on cash credit accounts, Table 17 is constructed from the net half-yearly balances. Table 14 and 15 gave a comparative view of the amount of business the agents were conducting in their private capacity. Table 17 shows their net indebtness and therefore their relative inability to service their debt to the bank.

Between Dec. 1837 and June 1840, the agents had nearly doubled their debt to the bank. Successive encouragement and pressure had reduced this debt. But in Dec. 1840, the agents' net position was still 36% more than their original borrowing. From these figures, in turn, an idea of how exposed the bank may have been in 1844 can be formed. A simple extrapolation of the past four years would suggest that by the next four years (i.e., in 1844) the agents could be expected to have increased their indebtedness to more than $12000! The exact figure is unfortunately not extant. The court minutes of April 20, 1859, however, noted the sale of the Laing Estates which were expected to fetch between £37-38000. This the minutes recorded would be more than adequate to satisfy the bank's claims of £2000. [449] At a nominal rate of exchange of $5=£1, this would have been equal to $10000--a figure not too far removed from the rough extrapolation suggested above. Finally, a perhaps more reliable figure is extant in the correspondence between the manager in Berbice, Robert Barnes, and London. [450] Barnes reported that

TABLE 16
BERBICE LEDGER BALANCES
1837-1840
THE COLONIAL BANK ACCOUNT
DOLLARS

| DATES | | AMOUNT | % CHANGE |
|---|---|---|---|
| June | 1837 | 0 | |
| Dec. | " | 124713.26 | 100 |
| June | 1838 | 180303.39 | 45 |
| Dec. | " | 165901.07 | -8 |
| June | 1839 | 183436.90 | 11 |
| Dec. | " | 134579.05 | -27 |
| June | 1840 | 219263.43 | 63 |
| Dec. | " | 140790.39 | -36 |

TABLE 17
Berbice Ledger Balances
1837-1840
Robert Semple & Company
Cash Credits Account
Dollars

| DATES | AMOUNT | % CHANGE |
|---|---|---|
| June 1837 | 0* | |
| Dec. " | 6543.83 | 100 |
| June 1838 | 12570.38 | 92 |
| Dec. " | 10539.11 | -16 |
| June 1839 | 9425.08 | -11 |
| Dec. " | 8212.85 | -13 |
| June 1840 | 9190.03 | 12 |
| Dec. " | 8878.13 | -3 |

---

*Footnote: The first balance in June 1837 was actually $2384 in favour of the agents (i.e., a credit balance) and was therefore like a current deposit account balance. As it did not constitute an advance by the bank, in terms of their debt the balance can be said to have been nil.

that the cash credit account belonging to Robert Semple & Co. had been transferred to Laing Bros. & Co. who, in turn, had made a certain Dr. Richardson responsible for the payment of the closing balance of $9000 on March 9, 1841. Whether this sum was ever paid is not as important for the purposes of this discussion--Barnes worried about whether it could even be legally proven to have been transferred--as the fact that in terminating the Berbice agency the bank had been left with debts of approximately $10000!

The directors had to be subtle about the way they went about terminating the agency. The subsidy for the branch was reduced to a level at which the agents, themselves, would no longer be interested in continuing their office. This was contained in the agents' letter to London, dated Sept. 15, 1842:

> "The Directors are quite correct in supposing we could not be induced to continue in charge of the Business here at the reduced Salary proposed viz £500 Sterling. The sum now allowed is no remuneration for the time the Business of the Bank occupies; out of which the clerks salaries and office rent take up fully £600 Sterling-. It was our intent to have relinquished the charge after the end of the year unless £1200 had been allowed as Salary to cover all expenses, and as we have had more trouble than usual this year with the Bank affairs we hope the Directors will allow us that rate for the present year. We should of course give the Bank Business our best attention until their arrangements are completed for relieving us of the charge." [451]

But eventhough both sides had now agreed to wind-up the agency, more time was still essential before it could be implemented. A year after the above letter, the court minutes of Oct. 17, 1843 still could only note that:

> "The state of the Berbice Branch, more particularly with regard to the liabilities of Mess[rs]. Laing Bro[s]. [sic] & Company, having been discussed, it was determined to defer for the present making any changes." [452]

If closing down a branch involved the writing-off various capital investments in the branch, the closing down of an agency meant the possibility of not being able to collect the outstanding liabilities of the agent. The Colonial Bank was not prepared to risk this until Feb. 27, 1844, when it confirmed the appointment of Nimmo as the manager of the Berbice branch.

### (ii) THE COSTS OF AGENTS FAILING : MEXICO

The failure of an agent could be even more strategically important to the bank. The Colonial Bank, for example, lost nearly £50000 in unrecovered debt from the failure of its agent in Mexico, Messers Manning & Mackintosh. [453]

Even before the commencement of operations, a committee was formed to appoint an agent in Mexico to procure silver dollars for the bank. [454] Although the name of Manning & Marshall had come up at the meeting held on Nov. 14-15, 1836, due to the fact that Mr. Marshall was not in England, the bank procured its first order for silver dollars on Nov. 30, 1836 from Cotesworth Pryor & Co. [455] By the meeting of the court on May 21, 1839, however, an arrangement had been negotiated with Manning & Marshall to deliver $200000 a month. [456] These shipments were to be paid for by drafts drawn by Manning & Marshall on the bank in London. By 1843, the court had increased

its business with these agents to the extent that the court minutes of Nov. 29 recorded an order placed with them for $1 million. [457] Due to unspecified circumstances, however, the court began to have doubts about the reliability of their agents. Perhaps their excessive drafts on the court may have had something to do with this. The failure of the Colonial Bank to reach agreement with the Commissariat--see Appendix for more detailed narrative {458}--would certainly have reduced its dollar requirements and therefore the shipment of silver dollars, while the agents continued to draw on the court regularly. The court minutes of April 4, 1843 resolved to reduce the orders placed with Manning & Marshall to $500000. [459] By 1845 the firm of Manning & Marshall had either failed or was wound-up. The court minutes of April 22 recorded an offer, by what undoubtedly was its successor, to continue to supply the bank with silver dollars. [460] Most likely the new company would also have undertaken to deliver consignments for which their predecessors had already drawn drafts on the bank. The new firm, Manning & Mackintosh, was therefore already in debt to the bank, even before the start of any new business. Further drafts drawn would naturally have increased its indebtedness--no more need be said here of the security problems of shipping the specie referred to in a earlier chapter. This would explain why on April 23, 1850, the court resolved to terminate its agency agreement and dispatched the superintendent, Thomas Milner, to Mexico to find a new agent. [461] Depriving the agent, however,

of its revenue was hardly conducive to its struggle to pay its debts. It was also in the interest of the bank to obtain another signatory or guarantor for the doubtful debts. Not surprisingly therefore, the court minutes of Oct. 29, 1850 read Milner's report of Sept. 6 and approved the transfer of the agency to, once again, a new successor, Manning Markoe & Co. [462] The court minutes of June 24, 1851 shows that the bank had also appointed a representative to locally supervise the collection of its debts. [463] By (no doubt) an unhappy coincidence, however, the representative, W. de Drusina & Co., itself, had failed. The court minutes of June 17, 1851 resolved to approach M$^{c}$Calmont Bros. & Co., in London, to help find a successor. [464] M$^{c}$Calmont Bros., in turn, recommended their house in Mexico, M$^{c}$Calmont Gieves & Co. [465] The new agents were successful in recovering some of the debt. The shares consequently acquired by the bank (recorded in the court minutes of Feb. 27, 1852) in the Catorce Mines may have well belonged to Manning & Mackintosh. Even these assets, however, were not adequate to cover the whole debt. The bank, for example, had to pay $5254.30 for unpaid calls in order to register the above shares. The 1856 London account of the bank contained three enteries for bad debts of Manning & Mackintosh, totaling more than £50000. [466] £20000 was written-off with other old and inoperative debts. Another £20674 was transferred to the new bad and doubtful debt account. The last £10000 was partially secured by the sale of a paper mill belonging to Manning & Mackintosh. But even this left more than

£3894 of bad debt posted to the new bad and doubtful debt account:

| | | |
|---|---|---|
| Paper Mill acquired from M & M in Mexico valued at $50000 @ 4.80 | | £10416 |
| McCalmont Geaves & Co. for law and other charges | $7553.70 | |
| less gain on dollars since above paid | 1058.06 | |
| net @ 4.80 | 6495.64 | 1353 |
| Principal + costs of Recovery | | £11769 |
| Paper Mill sold by McCalmont Geaves & Co. in March 1856 realizing $37800 @ 4.80 | | 7875 |
| To new bad and doubtful debt account | | £ 3894 |

## (3) STRENGTHS OF MULTI-BRANCH BANKING

Multi-branch operations were a strength for the colonial banker in seizing the opportunities in intercolonial and foreign funds transfers and remittances, as well as serving the banking needs of HMG, particularly those of the military garrisons in the colonies. While the former could be served--albeit at perhaps a smaller profit margin--by a network of branches and agencies, the latter required an extensive branch network. This section will focus attention upon the intercolonial orders and the Commissariat business of the Colonial Bank.

## (a) INTERCOLONIAL ORDERS AND DRAFTS ON FOREIGN AGENCIES

Intercolonial orders and foreign drafts were examples of the instruments used by the colonial banking companies to exploit the demand for the settlement of intercolonial debts and, in general, the transfer of funds from one place to another. Unlike the other instruments such as the sale of bullion, specie, or bills on London which could just as easily have been conducted by a single-branch operation, intercolonial orders required a network of branches and/or agencies.

Essentially, an intercolonial order or draft on a foreign agency represented a liability of the banker payable at another geographical location. Its primary advantage to the customer was the convenience of converting money, receivables, specie, etc., at one place into an order payable elsewhere. The reliability of an intercolonial order, in turn, depended upon the payee being known to the customer, both for its credit-worthiness as well as its established arrangements with the drawee to honour his orders upon them. The possession of agents, who were known to honour such orders, or, even better, the possession of branches, were, therefore, strategic marketing strengths of a multi-branch operations. In one of his earliest letters, dated June 17, 1837, addressed to the agents in New York, for example, Peter Rose asked them to signify their acceptance--for a commission, of course--of his orders upon them, in order "... to give them currency at New York". [467]

The Instruction Book of the Colonial Bank issued to

managers and dated July 1, 1837, differentiated between intercolonial orders and foreign drafts, not so strictly along the lines of British and non-British colonies, but in terms of whether the operations were conducted between branches or agents of the bank. [468] Intercolonial orders were designated as those operations between the branches of the bank while foreign drafts were looked upon as those between the bank and its agencies. For example, transactions with the St.Thomas branch, though in a foreign colony (Dutch), were regarded as intercolonial orders while those with the agencies in Canada were designated as foreign drafts.

In order to understand why the bank preferred to divide its operations in this manner, it is necessary to look at the strategic advantages of such operations to the bank. Besides the obvious ones of retaining specie that would otherwise have been exported from the colony and being a rich local source of specie for the bank, intercolonial orders provided an opportunity, discussed earlier, to exploit exchange differentials. Because of this opportunity, it was necessary for the bank to protect itself from being used by others as a means to further <u>their</u> speculative business. That the Colonial Bank was aware of this is clear from a letter addressed by Rose to the joint-managers of the Barbados branch on June 7, 1839 :

> "In drawing InterColonial Orders or in purchasing InterColonial Bills [sic], I have always been governed by the principle of looking at the difference of exchange both when the <u>amount</u> is such as to make it important and when there are any circumstances that leave me to suspect an exchange operation." [469]

While such a vigilant control could be expected or demanded of a branch, the more independent nature of agents made them less reliable--particularly when they stood to gain from the differential--as seen earlier in Berbice. In order to discourage such speculation, the bank distinguished between the two operations and made different charges for them. The manager at Antigua, for example, explained to his counterpart in Grenada on Oct. 24, 1837 that the charge for intercolonial orders in Antigua were the standard 1%. [470] This percentage was confirmed by a letter from the agents in Berbice to the superintendent in Barbados, dated May 31, 1837, in which they suggested that the commission for large orders be reduced from 1% to 1/2%. [471] Different charges could not be sustained in Berbice. Its close proximity to Demerary made other alternatives, such as the use of bank notes to transfer money, an easy substitute for speculative purposes. This was explained in a letter from Robert Barnes, the manager in Berbice, to the superintendent, dated April 2, 1850 :

> " The distances between Berbice and Dem$^{ara}$.[sic] is so short, and communication so frequent and rapid, that it was found impossible to support a charge on Int. Colo. Orders [sic], they have for more than 12 months been issued at par and it has proved to this Branch a most valuable means of getting a supply of Specie." [472]

Peter Rose, to cite another example, apologized in his letter of March 16, 1838 to the superintendent for the error of the Berbice agents who, he explained, had issued an order on St.John's, New

Brunswick, as an intercolonial order, charging a 2% commission whereas they should have dealt with it as a foreign draft. As such the bank would have charged 2.6% in order to bring the value in line with a 90 d/s bill on London. [473]

The bank itself, of course, was prepared to take advantage of the same exchange differentials. Its network of branches, at such times, were an invaluable strategic strength. The possession of multi-colony branches allowed the bank to identify those branches where the exchange rate was most advantageous to sell drafts on London. Intercolonial orders, then, could be used as a means of distributing the dollars raised, in that colony, to other branches. Furthermore, the bank retained direct control over the operation of intercolonial orders and could increase or decrease them by manipulating their charges. This operation can be seen at work in a series of letters exchanged between the manager, W. H. Thompson, in Antigua and the branch in St.Thomas. Thompson wrote the superintendent on March 18, 1839 that :

> "... I have given up the charge of one half per cent [sic] (hitherto) made on drafts on that place considering it advantageous for the Bank to encourage that trade, the Exchange [sic] here prevailing much below the rate at that Island." [474]

In a following letter, dated April 22, 1839, Thompson reported to St.Thomas that he was disappointed to hear of the fall in the exchange at St.Thomas as he had been profitably buying bills on London at $460, knowing that the funds could be raised at much

better terms in St.Thomas. [475] Lower rates in St.Thomas meant that Thompson did not need to continue promoting intercolonial orders and, therefore, could raise once again his commissions. This, he reported to the superintendent, caused, "... I fear a drain on the cash in circulation in the Island for remittance to that place...." as customers found it cheaper to ship specie than to buy intercolonial orders. Thompson continued to enquire about the exchange in St.Thomas and noted how

> "... I was sorry to hear of the low state of your Treasury [due to the fall in the exchange for drafts on London], as I consider the sale of our drafts [i.e., intercolonial orders] on your Bank as a profitable business for the Corporation." [476]

### (i) A DEMONSTRATION OF SYNERGY IN INTERCOLONIAL ORDERS

So far the discussion has focused upon the descriptive advantages of multi-branch operations. Access to the financial accounts of the Colonial Bank, however, enable a perhaps if not more interesting, a more unusual, look at the statistical demonstration of the advantages of a multi-branch operations. The extant financial accounts of the Colonial Bank for 1846-1850 contain the reports of the superintendent of branches. The General Abstract of The Colonial Bank No. III, prepared each half-year, contained the balances of the receipts and payments of the respective branches by operations--see Appendix {477} for sample. For example, on one side are the balances for 'Sterling Bills of Exchange' remitted to London while on the other side are

its counter-balances for 'Drafts' drawn on the court of directors. One account each is extant for 'Foreign Bills' remitted and 'Drafts on Foreign Agencies' while two accounts each are extant for 'Intercolonial Orders' paid and drawn. Intercolonial orders are divided into those for private remittances (known as 'Transfers') and those for the settlement of commercial debts (known as 'Business'). Because the respective counter-balances, naturally were not equal in value, a floating balance was carried over into the next half-year.

Using the data extant for the two intercolonial orders it is possible to demonstrate how the multi-branch operations of the Colonial Bank made a positive contribution to the change in the intercolonial order business. Each branch made a contribution to both the drawing of new intercolonial orders as well as paying the orders drawn upon them by other branches. The data reveals the extent to which the respective branches were making positive, negative, or no contributions. A multi-branch operation can be said to have had synergistic strengths (i.e., strengths in the network beyond the mere sum of the strengths of the individual branches) if a majority of the branches were making a positive contribution to either drawings or payments. For if a majority of the branches were making only negative or nil contributions, then the multi-branch network could not really be said to have contributed to the growth of the intercolonial order business. Closing down those branches would neither have reduced the overall drawings nor the payments. One crucial

methodological assumption adopted may need explanation. The way the data is arranged the sum total of drawings for any half-year do not equal the sum total of payments for the same year. The difference is carried over in the floating balance. In order to be able to conduct the demonstration, it was necessary to assume that these residuals had been drawn and/or paid by the London office. This, of course, was not the case in fact. But the creation of this fictitious branch enabled the drawings to be made arithmetically equal to the payments, thus allowing a demonstration of the respective contributions by each branch to the overall growth in 'Business' and 'Transfer' intercolonial orders.

Table 18 and 19 show the half-yearly percentage changes in the respective drawings and payments of each branch. Because the arithmetic value of the total drawings is equal to that of the payments, each branch balance is also a measure of the share or contribution of that branch to the overall drawings or payments for that half-year. In turn, the percentage change in these balances also reflects the contribution of each branch to the change in operations. In other words, Tables 18 and 19 show not only how (i.e., positive, negative, or nil) intercolonial orders changed each half-year but which branch contributed what proportion (i.e., what percentage of the total change). Using the data in these tables, two frequency tables can be constructed to show the regularity with which branches made negative or nil contributions to the growth in intercolonial orders. It is clear

from Table 20 that the majority of branches were making a positive contribution during the major part of the 8 periods (there being no data for Dec. 1847) for which data is extant. The one exception is, of course, Caracas. Caracas, however, as will be seen later in this chapter, was a peculiarly troublesome branch. Furthermore, it was seen in an earlier chapter that not much trade appeared to be possible between Caracas and the West Indies as a result of the agitation in that country. [478] Otherwise multi-branch banking had synergistic strengths for the Colonial Bank in so far as its intercolonial order business was concerned.

## (b) THE COMMISSARIAT BUSINESS

In discussing the opportunities and threats in retail banking, in an earlier chapter, reference was made to the opportunities in servicing the banking needs of HMG, in the colonies, as well as the threats of HMG competing with the banks in the exchange market. The primary needs of HMG were military expenditures--both for the resident garrisons and pensioners as well as the Royal Navy whose men were paid when they came ashore. The latter were again referred to in an earlier chapter as being a drain upon the circulation of the colonies. The financial arm of H.M. Forces appears to have been the responsibility of the Commissariat who raised funds for its use by the sale of bills drawn on H.M. Treasury in London. A detailed and interesting--though not directly relevant--narrative

TABLE 18
BUSINESS INTERCOLONIAL ORDERS
COLONIAL BANK
HALF-YEARLY % CHANGES
JUNE 1846---DEC. 1850

| J=JUNE D=DEC | J46-D46 | | D46-J47 | | J47-J48 | | J48-D48 | |
|---|---|---|---|---|---|---|---|---|
| W=DRW'NG Y=PAY'T | W | Y | W | Y | W | Y | W | Y |
| BARBADOS | 26 | -36 | 7 | -5 | 24 | 43 | -3 | -2 |
| TRINIDAD | 83 | 58 | 3 | 20 | -33 | 23 | -1 | -5 |
| GRENADA | -22 | 15 | 2 | 3 | 3 | 5 | 1 | 0 |
| ST.VINCENT | -47 | 3 | -5 | 0 | 31 | 2 | -7 | 2 |
| ST.LUCIA | 16 | -21 | 12 | -8 | -12 | 6 | -2 | -1 |
| DOMINICA | -30 | 25 | -16 | 0 | 0 | 3 | -3 | 0 |
| ANTIGUA | -15 | -9 | -4 | 2 | 42 | 14 | 5 | -1 |
| ST.KITTS | 5 | 8 | 27 | 4 | 19 | -5 | 3 | 1 |
| DEMERARY | 4 | 126 | 3 | -53 | -10 | 109 | -4 | 1 |
| BERBICE | 116 | -14 | -66 | -9 | 114 | -43 | 8 | -11 |
| KINGSTON | 19 | 158 | 2 | -35 | 1 | 7 | 1 | 22 |
| MONTEGO BAY | 210 | 7 | -57 | 4 | 8 | 0 | 25 | 0 |
| ST.THOMAS | 15 | -255 | 5 | 174 | -3 | -53 | -1 | 94 |
| PORTO RICO | -204 | 15 | 171 | 2 | -85 | -9 | 67 | 0 |
| ST.CROIX | 35 | 0 | 10 | 1 | 17 | -1 | 2 | 0 |
| CARACAS | -110 | 6 | -24 | 0 | -16 | 0 | 11 | 1 |
| LONDON | -1 | 15 | 30 | 0 | -2 | 0 | -2 | 0 |

| J=JUNE D=DEC. | D48-J49 | | J49-D49 | | D49-J50 | | J50-D50 | |
|---|---|---|---|---|---|---|---|---|
| W=DRW'NG Y=PAY'T | W | Y | W | Y | W | Y | W | Y |
| BARBADOS | 24 | 43 | 7 | 49 | -13 | 19 | -29 | 78 |
| TRINIDAD | -33 | 23 | -3 | 4 | 4 | 6 | -4 | 10 |
| GRENADA | 3 | 5 | -14 | 3 | -10 | -1 | 13 | -3 |
| ST.VINCENT | 31 | 2 | 28 | -2 | -16 | 0 | 10 | -4 |
| ST.LUCIA | -12 | 6 | -8 | 4 | -5 | 3 | 0 | -2 |
| DOMINICA | 0 | 3 | 5 | 3 | 3 | -1 | 0 | 0 |
| ANTIGUA | 42 | 14 | 5 | 11 | 16 | 10 | 33 | -9 |
| ST.KITTS | 19 | -5 | 14 | 0 | 8 | 1 | -2 | 2 |
| DEMERARY | -10 | 109 | 5 | 14 | 44 | 53 | 33 | -2 |
| BERBICE | 114 | -43 | 18 | -27 | 69 | 22 | 19 | -1 |
| KINGSTON | 1 | 7 | 1 | 53 | 0 | 17 | -1 | 28 |
| MONTEGO BAY | 8 | 0 | 50 | -1 | 16 | -2 | 33 | 0 |
| ST.THOMAS | -3 | -53 | 0 | -10 | -2 | -28 | -4 | 3 |
| PORTO RICO | -85 | -9 | 2 | 0 | 0 | 0 | -12 | 0 |
| ST.CROIX | 17 | -1 | -17 | 0 | -25 | 0 | 12 | 0 |
| CARACAS | -16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| LONDON | -2 | 0 | 6 | -1 | 11 | -1 | -2 | 0 |

TABLE 19
TRANSFER INTERCOLONIAL ORDERS
COLONIAL BANK
HALF-YEARLY % CHANGES
JUNE 1846---DEC. 1850

| J=June D=Dec. | J46-D46 | | D46-J47 | | J47-J48 | | J48-D48 | |
|---|---|---|---|---|---|---|---|---|
| W=DRW'G Y=PAY'T | W | Y | W | Y | W | Y | W | Y |
| BARBADOS | 160 | 145 | 272 | 117 | -94 | -226 | 233 | 376 |
| TRINIDAD | 26 | 11 | 192 | -79 | -92 | 23 | 130 | 16 |
| GRENADA | 13 | 118 | -46 | 493 | -8 | -19 | 56 | 92 |
| ST.VINCENT | 12 | 29 | -12 | 12 | -19 | -10 | 36 | -1 |
| ST.LUCIA | 31 | 53 | -39 | 148 | -95 | 10 | 120 | 3 |
| DOMINICA | 15 | 1 | 59 | 50 | 8 | -65 | 28 | 49 |
| ANTIGUA | 21 | 35 | 13 | 93 | -1 | -27 | 11 | 100 |
| ST.KITTS | 23 | 57 | 61 | 122 | -11 | 10 | -48 | 40 |
| DEMERARY | 201 | -4 | 359 | -130 | -14 | -211 | 70 | -50 |
| BERBICE | -46 | 107 | -195 | 178 | -181 | -9 | -117 | -102 |
| KINGSTON | -269 | -15 | 122 | -321 | 369 | 127 | -478 | 46 |
| MONTEGO BAY | 4 | -265 | -59 | 128 | 13 | 364 | 29 | -496 |
| ST.THOMAS | 4 | -130 | -203 | -707 | 90 | 192 | 120 | -71 |
| PORTO RICO | -36 | -6 | -120 | -26 | 69 | 18 | 1 | -11 |
| ST.CROIX | -92 | -14 | -365 | 40 | 52 | 1 | -21 | -17 |
| CARACAS | 0 | 0 | -2 | -9 | 0 | -25 | 2 | 43 |
| LONDON | 33 | -22 | 61 | -10 | 15 | -52 | -71 | 84 |

| J=June D=Dec | D48-J49 | | J49-D49 | | D49-J50 | | J50-D50 | |
|---|---|---|---|---|---|---|---|---|
| W=DRW'G Y=PAY'T | W | Y | W | Y | W | Y | W | Y |
| BARBADOS | -4 | -9 | 14 | 21 | 247 | -197 | 4 | -46 |
| TRINIDAD | 4 | 4 | 9 | -4 | -1 | 254 | -4 | 14 |
| GRENADA | -7 | -1 | -1 | -5 | 185 | 203 | -7 | 2 |
| ST.VINCENT | 3 | 3 | 3 | -3 | -48 | 156 | -8 | 4 |
| ST.LUCIA | 0 | 0 | 4 | 3 | -30 | 32 | 6 | 7 |
| DOMINICA | 0 | 5 | 3 | 0 | -55 | 60 | -5 | 4 |
| ANTIGUA | -3 | 3 | 6 | 2 | -89 | 98 | -16 | 7 |
| ST.KITTS | 6 | -2 | 4 | 2 | 53 | -29 | 16 | 2 |
| DEMERARY | -25 | 77 | -26 | 20 | 167 | 309 | 15 | 54 |
| BERBICE | 77 | -19 | 18 | -23 | 138 | 30 | 55 | 16 |
| KINGSTON | 37 | -5 | 37 | 4 | -556 | 135 | 2 | 29 |
| MONTEGO BAY | 0 | 40 | 4 | 38 | 190 | -566 | 30 | 3 |
| ST.THOMAS | 12 | 2 | 1 | 33 | 4 | -58 | -16 | 19 |
| PORTO RICO | 0 | 2 | 1 | 0 | -27 | 0 | -90 | -24 |
| ST.CROIX | 1 | 3 | 30 | 0 | -147 | 33 | 120 | 10 |
| CARACAS | -2 | -2 | -1 | -1 | 0 | 0 | 0 | 0 |
| LONDON | -1 | 0 | -6 | 14 | 68 | -359 | -2 | 0 |

TABLE 20
COLONIAL BANK
INTERCOLONIAL ORDERS
FREQUENCY OF NIL OR NEGATIVE CONTRIBUTIONS
BY BRANCHES TO THE GROWTH IN BOTH DRAWINGS AND PAYMENTS
JUNE 1846-DEC. 1850

| | BUSINESS | TRANSFERS |
|---|---|---|
| BARBADOS | 1 | 2 |
| TRINIDAD | 1 | 0 |
| GRENADA | 1 | 3 |
| ST.VINCENT | 2 | 1 |
| ST.LUCIA | 3 | 1 |
| DOMINICA | 4 | 0 |
| ANTIGUA | 1 | 1 |
| ST.KITTS | 0 | 0 |
| DEMERARY | 0 | 1 |
| BERBICE | 1 | 2 |
| KINGSTON | 0 | 1 |
| MONTEGO BAY | 0 | 0 |
| ST.THOMAS | 3 | 1 |
| PORTO RICO | 3 | 4 |
| ST.CROIX | 3 | 2 |
| CARACAS | 6 | 7 |
| LONDON OFFICES | 4 | 2 |
| TOTAL PERIODS | 8 | 8 |
| THE MEAN | 1.94 | 1.33 |
| THE STANDARD DEVIATION | 1.70 | 1.67 |
| THE VARIANCE | 2.88 | 2.79 |

of the negotiations of the bank and HMG, between 1840-1856, can be constructed from the bank archives and those in the PRO. This will be found in the Appendix rather than in the text here. The Commissariat business is only of direct interest, here, as an example of the strengths of multi-branch banking.

Commissariat bills introduced large periodic fluctuations in the exchanges. Naturally, no private bill nor banker's draft could compete with bills drawn on the Treasury. Unable, consequently, to compete with the Commissariat, it was in the interest of the colonial banker to join forces with it. The Commissariat business, however, required an extensive network of branches--both troops and pensioners were scattered throughout the colonies. This is where the multi-branch network of the bank became an invaluable strategic strength. For even if a number of branches did not make independent profits large enough to endear them to the bank, their existence allowed the bank to take-over the Commissariat business.

The early contact between the bank and the Commissariat revealed their clashing operations. A letter is extant in the PRO, for example, from the superintendent in Barbados to the governor-general, also in Barbados, dated July 4, 1838 asking him to enduce the Commissariat to cooperate with the bank to prevent the export of specie from the colony. [479] The Colonial Bank archives, on the other hand, depict the degree to which competition from the Commissariat was perceived as a threat. The manager at Antigua, for example, explained to his colleague in

Trinidad on Aug. 10, 1839 [480] that the Commissariat had become a real alternative to the transmission of money from place to place. The directors, in turn, blamed their bad exchange business at the general meeting held on Jan. 2, 1839 [481] on the Commissariat who they pointed out was selling its bills for a 1.5% discount. But the most explicit analysis of the strategic threat from the Commissariat was prepared by a special committee that met on June 6, 1850. Its extant report noted that :

> "The Committee having under consideration the question referred to them by the Court, as to the expediency or otherwise of... supplying Specie to the Commissariat Chests in the Windward and Leeward Command, report
>
> that they have looked into the subject and have perused sundry letters thereupon written at different periods by the Superintendent (Mr. Milner) and they have come to the conclusion that it is an advantage to the Branches to be relieved from the competition of the Commissary...." [482]

There was a good reason for the establishment of a special committee to study the strategic pros and cons of the Commissariat threat. Relief from competition was clear but it was not, necessarily, to be gotten for free. The Commissariat business, if it did not actually incur a loss, was often at par and, therefore, incurred lost opportunities. The court minutes, in fact, reflect how much this opportunity cost may have been. The Commissariat business, between 1845-1847, had been arranged at par. [483] This meant that the Colonial Bank had supplied dollars for 48 pence (or $4^s$ instead of their asking price of $4^s/2^d$). The court minutes also contain 5 sales of specie by the bank during this period to other customers, at an average price

of 57.85 pence per oz. Using the conversion factor 0.869, of an earlier chapter, this value is equivalent to an average price of 50.27 pence per dollar. The bank was clearly making an opportunity loss of more than 2 pence per dollar! This loss was not lost upon the bank. It became the fundamental cause of the breakdown in the arrangements between 1847-1849. But what the bank was forced to accept and the Committee meant by its recommendations, above, was that the net worth in eliminating a competitor was worth more than the loss of 2 pence in foregone opportunities. That this was painfully clear to the bank is manifested in the court minutes of 1847-1849. The court minutes of March 7, 1848 recorded a letter, dated March 4, sent to Trevelyan, pleading with him to stop the Commissariat from selling bills in the colonies because it led to the exportation of specie. [484] A special court was held to address a second letter, again to Trevelyan, to protest his answer to the first one that the Treasury could not instruct the Commissariat to stop selling bills in the colonies. [485] Interestingly, both the original of these letters are extant in the PRO. [486] The Treasury and the Commissariat were both not averse to putting pressure upon the bank. In a letter extant in the PRO dated April 26, 1849, the Commissariat in Barbados assurred Trevelyan, at the Treasury, that the bank had as much interest in entering into an arrangement with HMG

> "... for the advantage they derive by the measure are very great; the most important of which is, that by keeping Commissariat Bills out of the Market, they have the exchange, both for the sale and purchase of Bills, under their own control.-" [487]

as she had in relying upon their services for an economical source of specie

> " There can be no doubt... the arrangement would be both convenient and profitable to the Government...." [487]

Some of these advantages to HMG were alluded to in a letter from the Colonial Bank to the Chancellor of the Exchequer on Jan. 14, 1840 and Trevelyan on March 19, 1840, both extant in the PRO.

> "By entering into an arrangement of this kind Her Majestys' Government would be relieved from the burthen [sic] of providing a constant & [sic] regular supply of Specie and would derive a considerable saving by no longer being under the necessity of keeping large sums of money idle in the Commissariat Chests, which is unavoidable under the present system." [488]

> "It is proper to call your attention to an item of expence which may not have occurred to you, which would be saved by H M [sic] Government in coming to such an arrangement with the Bank as that under consideration vis the expence of transporting Specie from Jamaica or Barbados to other Colonies." [488]

The strategic significance of the bank's elimination of a competitor can, fortunately, be measured in hindsight by the results of its success. A Treasury memorandum of May 8, 1856, most likely prepared by Francis Baring and extant in the PRO, shows how the bank had secured its dominance over the West Indian

exchange by eliminating the competition from the Commissariat:

> "I have no doubt that if we dissolved our connection with the Bank and sold our own Bills the Bank w$^{d}$ [sic] beat us in a competition which w$^{d}$ probably be a loss to both parties." [489]

Baring expanded on this point in a Treasury background paper dated Oct. 16, 1856 :

> "... the Colonial Bank has I believe almost a monopoly of business in the W. Indies [sic]....
>
> No doubt therefore, it is a considerable object with the Bank... to be the chief, and often the only sellers of bills....
>
> ...we have not the advantage of any competition in the W. Indies--we must deal with the Colonial Bank or with none--Though there are other banks at Jamaica I never heard of there being branches in the W$^{d}$ [sic] + Leew$^{d}$ Islands." [490]

The bank's successful dominance of the market, in 1857, can be seen in a private letter from the chief officer of the Commissariat in Barbados, W. J. Greig, to Trevelyan on Oct. 27, 1857:

> " If I had to raise Specie by the sale of Exchange, I could not negotiate Bills on such favourable terms as they are now taken by the bank.
>
> ....
>
> There are only two parties that could purchase the Bills the Bank + [sic] Mess$^{rs.}$ Cavan + Company from these parties most of the Mercantile community receive the means to make remittances for importations, and if any House was to purchase Government Exchange and draw Specie from the Bank to pay for the same, it is more than probable, their Bank Account would be closed and facilities refused." [491]

The initial years between 1845-1852, with hindsight,

appear to have been a trial period. The Colonial Bank merely supplied specie to the military chests and did not actually do the work of the Commissariat. The military chests were enumerated in the Treasury background paper prepared when the latter was contemplated. Before 1853, troops, stipendiary magistrates, Black Chelsea, and other pensioners resided in :

BARBADOS, Berbice, DEMERARY, TRINIDAD, Grenada,
St.Vincent, ST.LUCIA, Dominica, Antigua, St.Kitts.

Tobago was included with Barbados. There were no Commissariat officers resident there and the bank branch had been closed since 1846. Also it is noteworthy that Jamaica is not on the list. The War Dept. supplied Jamaica independently until 1856. {458} After 1853 when the major part of the troops were withdrawn, only those places capitalized above still had payments to be made to the troops. The others--including Berbice which was subsumed under Demerary--still had pensioners etc. [490] In each of these places the bank provided the specie while the resident Commissariat officer (when there was one) made the actual payments and kept the on-going balances.

Preliminary negotiations for this to be done at the bank rather than at the local Commissariat offices were conducted in Barbados. There was no point Greig explained to Trevelyan on Jan. 8, 1857 in:

> "... the present plan of carrying and counting many thousands of Pounds every month from the Bank to the Treasury Chest, nearly the whole of which is I believe returned without going into circulation at all." [491]

By crediting the accounts directly the bank could reduce its need to inflate its cash balances every month. The Commissariat, on the other hand, would not need to arrange for pick-up, transport, and security for the specie from and back to the bank. The court minutes of Jan. 20, 1852 recorded a letter from Milner, dated Nov. 8, 1851, "... enclosing memorandum of a proposal for the bank to undertake the monetary business now done by the Commissariat in the West Indies...". [492] Two letters were subsequently noted in the court minutes of Jan. 27 and Feb. 27 from Trevelyan. [493] Though the contents are not recorded, they were perhaps unenthusiastic about the scheme. Nothing more was said until the Treasury background paper referred to earlier in 1856. The objections to the scheme given by its author, Francis Baring, may well have been the reasons for the failure of the scheme to be implemented in 1852. Baring argued that there were managerial or administrative reasons against the scheme. The large distances between the islands and the lack of a ready means of communication (such as, he said, the electric telegraph!) made control over the operations of the bank difficult and, in some cases, merely a duplication of what already existed. Baring was also aware that such an arrangement would tie the Commissariat even closer to the bank and deprive it of the freedom of alternative sources of specie. Furthermore, there were the questions of 'national security':

> "... but what guarantees shd [sic] we have that the required amount of Specie w$^{d}$ [sic] be forthcoming from the b [sic] in any military emergency ?" [490]

The Treasury wrote on Nov. 15, 1856 to the Commissariat in Barbados authorizing them to finalize the arrangements. The Colonial Bank who had received a copy of this letter wrote back on Nov. 20, 1856 for clarification of some minor points. In particular, there was the charge for the work done in areas where the bank did not have a branch and there were no Commissariat offices. The bank in such cases would have had to pay an agent to do the Commissariat's bookeeping and the handling of the cash. [490] The bank was not happy with this condition. Baring added his comments to the margin of the letter, extant in the PRO:

> "This small matter may very well be left to Mr. Greig + [sic] the Bank agent [who was, in fact, the superintendent of Branches] to settle. FB " [490]

These negotiations are extant in the correspondence between the two that has survived in the PRO--dated Dec. 31, 1856 and Jan. 2, 1857. It was agreed that there were only three places where neither the bank nor the Commissariat had representatives. Nevis could be managed by the St.Kitts branch while the Antigua branch could oversee Montserrat. Tobago was the problem. The branch there had been closed since 1846 and the affairs of the bank entrusted to an agent. [494] The Commissariat wrote to the superintendent on Jan. 3, 1857 enquiring whether :

> "... though the Colonial Bank has not a Branch at Tobago I believe there is in that Island a party who transacts the business of the Institution on Commission, and who could make the payments there for the Bank, on account of this Department, and thus, in this arrangement I suppose the last difficulty may be removed." [491]

It was exactly that commission which worried the Colonial Bank. That Tobago should be the last stumbling block in the arrangements suggests how important each member of a branch network was to the whole. Unfortunately the details of why the Tobago branch had been closed is not clear. Even two years later when a group of colonists petitioned the court to re-open it, the directors felt that, "... there did not appear sufficient inducement, at present, to comply with the request...". [449] Whatever the reasons, the lack of a branch in Tobago nearly cost the Colonial Bank the Commissariat business. The Commissariat Officer in Barbados did not have the authority to accept the charges demanded by the bank. The chairman and the deputy-chairman, in London, therefore, had to approach Trevelyan to break the impasse. It was at such times when the social prominence of the Colonial Bank directors became a strategic strength. Interestingly, the personal note, dated March 10, 1857, from John Gurney Hoare to Trevelyan, with its "My dear Sir Charles....", has survived in the PRO--see chapter VIII. [491] The chairman reported this to the court at its meeting of March 18, 1857.

> "The Chairman reported that he and the Deputy Chairman had had an interview with Sir Cha$^{s}$ [sic] Trevelyan on Friday last, when they had undertaken on behalf of the Bank to transact the Cash operations of the Commissariat in the Windward and Leeward Islands Command, on the following conditions, viz
>
> ....
>
> and that he had directed the Secretary to write to the Treasury to that effect." [495]

This letter, dated March 14, is also extant. It included a 3% commission for the work done in places where no Commissariat office nor Colonial Bank branch existed--such as Tobago. On its margin Trevelyan wrote his assent to its conditions with instructions to inform both the bank and the Commissariat in Barbados. These conditions were formally approved at the Treasury meeting of March 26, 1857. [491] The branches of the bank were proven to be of synergistic value to one another and the multi-branch network of the Colonial Bank had enabled it to take over the Commissariat business in the colonies.

## (4) WEAKNESSES OF MULTI-BRANCH BANKING

### (a) PROBLEMS WITH FOREIGN BRANCHES : VENEZUELA

The opportunities (high rates of interest) as well as the socio-cultural and political risks (revolutions and civil unrest) of opening branches in foreign states (Venezuela) were touched upon in previous chapters. The territorial limits to the legal privileges of a British charter have also been discussed. This section will focus upon some of the potential dangers that arose when the Colonial Bank established branches in Venezuela. While these risks need not have necessarily always materialized, their potential was an inherent weakness in multi-branch banking. Though perhaps an isolated case (other branches such as St.Thomas and/or Martinique, etc., appear to have had no serious problems) this chapter on multi-branch banking would not be complete

without reference to the weaknesses which are so richly documented from the experience of the Colonial Bank in Venezuela.

In order to exploit opportunities in foreign states, a colonial banking company necessarily had to step outside the protection and the privileges granted to it within the British Empire. For the Colonial Bank in Venezuela this meant exposure to three basic threats :

(i) threats to its operations due to the arbitrary nature of the laws of the host country against which no objection or protest was possible;

(ii) threats to its personnel and assets because the host government was unable and/or unwilling to maintain law and order within its realms; and

(iii) threats to its ability to enforce, as a foreigner, its claims upon local bad debtors.

## (i) THREATS TO ITS OPERATIONS

The Colonial Bank archives record the suggestion to open a branch in Caracas as having come from a William Ackers, an expatriate who subsequently and for a short while also served as the joint-manager of the branch. [496] There is, in other words, no evidence in the archives to suggest any apparent political or imperialistic grounds for the subsequent antipathy of the Venezuelan government. The court minutes of November 6, 1838 appointed a committee, consisting of the chairman, his deputy and two directors to study the proposal. [497] They, in turn, turned for advice [496] to the manager of the branch in St.Thomas. The committee reported on Nov. 12, 1838 that it had

received no reply to its queries from St.Thomas. The committee suggested going ahead and making a generally favourable reply to Ackers. The contact with the Venezuelan authorities was delegated to Leander Miranda who had also arranged the terms for the bank's operations in Cuba. [498] The details of his negotiations with the government of Venezuela are extant as public records. As noted earlier, the bank had been counselled that it was allright to open branches outside British territory so long as it was permissable in the eyes of the host country. The extant material leaves little doubt of the warm reception accorded, at first, to the bank. Miranda's letter to the Ministry of Foreign Affairs, in Caracas on April 16, 1838 asking for the sanction of the government and people of Venezuela to open a branch received a warm reply on April 20 from the minister--himself an ex-English officer, Colonel William Smith.

> "... the Bank that may be formed in this Capital, or in any other Towns, in connexion [sic] with those already established in the neighbouring Colonies and conducted on the same principles will receive from the Government of Venezuela all the support and protection that the Laws will allow to encourage and facilitate the operations which are detailed in your Despatch. Nor does the Government entertain any doubt that the Public generally will look with favor [sic] upon the realization of a Project from which they will derive the advantages that it offers by giving a new and powerful impulse to the Trade and Agriculture of Venezuela." [502]

Assured of a warm welcome, the Colonial Bank proceeded with the measures that had become standard practice in opening its other branches. The committee for general purposes shipped the [499] required iron doors, chest and bank stationery on Jan. 14, 1839

followed by a clock and a barometer on June 3. [500] The court minutes of May 21 appointed William Ackers and Leander Miranda as joint-managers, retroactive from Sept. 10, 1838. The opening of the Caracas branch was formally announced at the general meeting of July 2, 1839. [501] When the managers submitted their powers of attorney and the commission to act for the bank to the Dept. of Finance on July 29, once again the Dept. replied (on Aug. 2) :

> "... the Government... on its part will afford to the Bank and to its various Branches all the support and protection allowed by the Laws in order to favour and facilitate its operations...." [502]

When the difficulties arose, H. M. Charg'e expressed surprise at how the bank had allowed itself to be persuaded to do business in Venezuela :

> " It has ever been a source of some surprise and much regret to me that, so well known as now is the Spanish American character as well as the character of their Governments, that upon mere wordy assurances of a friendly disposition on the part of the then existing Venezuelan Administration, to afford to a Bank, if established, all the countenance support and protection allowed by Law, the Directors of the Colonial Bank should have deemed it safe and advisable to form a Branch at Caracas...; and in a matter so delicate as Banking, and one in which National distrust and jealousy of a Foreign Establishment is so easily played upon for the insidious purposes of Native Rivals...." [502]

To be fair to the bank, it was not involved in anything that would compromise it politically in the eyes of the government and was confident it had little to fear from commercial competitors. The civil unrest and political agitation, of course, affected

everyone and hence were as much a disadvantage to them as they were to their competitors. As for the so called 'South American character', the bank continued to enjoy the trust of the general population who regarded its English management and credibility as a point in its favour vis-a-vis its local competitors. [502] In Jan. 1840, the bank was issued a licence ('Patente de Industria') to operate both in Caracas and throughout Venezuela. [502] The branch appeared to be assurred of a safe and secure future.

What the directors had not anticipated was the entry of a competitor who was also politically powerful and could design laws to suit its commercial objectives. With the establishment of the National Bank of Venezuela, in 1841, the attitude of the government (including Colonel Smith) became hostile. The Colonial Bank, in 1841, had acquired not just another competitor, in the National Bank, but one with formidable political influence and power in the government. Its 'President ad Interim' was none other than Colonel Smith, who "... became the uncompromising enemy of the Colonial...". [502] It was this combination of commercial interests and political power against which the Colonial Bank was weak. If the laws had been applied to all banks equally or if the competition amongst them had been purely commercial the Colonial Bank need not have been at any more of a disadvantage in Venezuela than it was in Britain.

Unlike the governor of British Guiana, Colonel Smith was not answerable to any higher public body such as the Colonial Office to which the bank could protest. Unlike the

colonial legislature, the government of Venezuela was the ultimate and supreme power of the land. It had the power and the means to enact laws and make demands of the bank in order to suit its unquestioned purposes. Colonel Smith had the political means to use such arbitrary powers to enhance the commercial interests of the National Bank.

The National Bank, for example, tried to prevail upon the directors through the Venezuelan diplomatic representative in London to withdraw Miranda. The chairman reported to the court, on Nov. 10, 1843 :

> " That Mr. A. Fortique the Venezuelan Minister had called upon him saying that he had been desired by his Government to represent that they considered it very inconvenient that Mr. Miranda should resume the management of the Caracas Branch of the Colonial Bank, as they were of opinion he would neglect nothing that could be prejudicial to Venezuela. Mr. Irving required Mr. Fortique to furnish him with a copy of the letter containing the said representation, or to write him a letter conveying the substance of the same--both which Mr. Fortique declined." [503]

Unlike the situation when they were faced with opposition from the governor of British Guiana, discussed earlier, the directors had little recourse to officially confirm or protest such an attack against their manager. Without something more substantive they could not even make a formal approach to their own Foreign Office :

> " The Court after some discussion determined, that as no direct communication had been made to them by the Venezuelan Government, they did not feel themselves called upon to take any notice of what they conceived to be a private communication from Mr. Fortique to Mr. Irving." [503]

In May 1847, the National Bank and Colonel Smith devised a scheme to financially embarrass the Colonial Bank and force its closure. Colonel Smith brought charges to the government accusing the Colonial Bank of :

--operating without the sanction of the Venezuelan Congress;

--being in contravention of its own charter (the John Innes argument cited earlier) by operating in Venezuela;

--having insufficient means and limited liability towards its creditors;

--operating against the interests of the Republic ("... it is a Monster that will devour the Republic") and its own shareholders;

--drawing away the customers of the National Bank by suggesting that the Colonial Bank liabilities are ensured by HMG should there be a change in the Venezuelan government; and

--circulating its notes and thereby hoarding the wealth of the Republic. [502]

Using these charges and the argument that only Congress (which was not sitting at the time) could authorize the operations of the Colonial Bank in Venezuela, Colonel Smith prevailed upon the President to intervene by issuing a Presidential Decree limiting the operations of the Colonial Bank until Congress met to decide its fate. The letter sent to Miranda by the Dept. of Finance on July 22, 1847, informing him of these restrictions, is extant. [502] These new restrictions and their background were also carried in the London Times of Sept. 11, 1847. The comments of the London Times are noteworthy because they allude to the popularity of the Colonial

Bank with the public, showing that the hostility of the government was based solely upon the commercial rivalries of the National Bank.

> " The last advices from Caracas, dated the 31st July, bring the information that the discussion in the press of that city, carried under the title of 'the question of the two banks' (cuestion de los dos bancos), has been temporarily settled by the President directing that the manager of the branch of the Colonial Bank established there shall be allowed to carry on business, regulating it by the following conditions until the meeting of Congress, when the whole matter in dispute will be submitted to the decision of that body:-
>
> 1st. The manager of the Colonial Bank is to keep in his treasury a sum in specie equal at least to half of the amount of the notes in circulation.
>
> 2nd. To allow a Government Officer to ascertain the fact whenever that step may be considered necessary by the President. And
>
> 3rd. To publish every two months a return, of the specie on hand, and the notes in circulation.
>
> The Caracas papers, which are filled with communications on the subject, apparently lean towards the Colonial Bank, and support its administration on the assumption that the introduction of British enterprise and capital thus effected has already proved advantageous to the republic [sic]. The question raised by the National Bank respecting the legality of the constitutions of its competitor on Venezuelan soil, and of its power, according to the terms of its charter, to issue notes without restriction, is one which of course will remain to be dealt with by the Executive of the State; but if we may judge from the measures adopted by the President, this alleged difficulty can be removed without compromising the existence of either establishment. It should be mentioned that these journals publish the opinions of the late Sir William Follet and Mr. Pemberton, which clearly state that the branch has been established in strict conformity with the terms of the act of incorporation." [504]

The amount of specie held in the treasury of a branch was considered to be highly confidential by the Colonial Bank. By forcing it to publish these figures the National Bank was now in a position to thwart and embarrass its competitor. Wilson

wrote the Foreign Office on Oct. 21, 1847 that the National Bank armed with the foreknowledge of the circulation of the Colonial Bank ($181905) and its specie reserves ($101305) on Aug. 31 had tried to close its doors by engineering a run on it. [505] Although, the Colonial Bank had--with the aid of "friends"--managed to parry that particular attack, it could not continue business for long under such a handicap.

(ii) THREATS TO ITS PERSONNEL AND ASSETS

The enmity directed at the bank inevitably also fell upon the manager in Caracas and his staff. Part of the jealousy and hatred of the National Bank for Miranda was his competence as the manager of the bank in Caracas. H. M. Charg'e, in a letter to the Venezuelan Secretary of State for Foreign Affairs, dated March 11, 1850, described him as :

> " Mr. Miranda's social position in Venezuela as manager of a bank, his numerous friends and acquaintances, his knowledge of the language, laws, and character of the people, confer upon him advantages in this respect rarely combined in the person of a British subject...." [506]

The unsettled political state of the country which precluded the establishment of law and order throughout the country also posed its own dangers. An extraordinary account is related in a letter from Miranda to the directors in London, dated Sept. 5, 1848. It manifests the chaotic state of government as well as the seriousness of the danger to Miranda's life in Venezuela. The issue was simple. The assets ($3238.45)

of a bankrupt had been seized by a certain Judge Juan Morales and deposited with the bank for payment to his creditors, including the bank (who was owed $3000). A second Judge Dr. Medina, unrelated to the case (but who also himself owed $360 since 1842 to the bank), had ordered Miranda to pay him a portion ($224.91) of this deposit. Miranda had refused to do so, explaining to London that :

> "... if I had complied with the orders of the Tribunal + [sic] paid the money to the party who had not deposited it, the Tribunal of the 1st Instance would have claimed it-- without my having paid it being deemed a valid plea for not doing so again to the right owner." [507]

Dr. Medina had not accepted Miranda's position and had demanded another $95.04. When Miranda refused a second time:

> "... a file of soldiers... came to the Bank to conduct me to prison.
>
> ....
>
> ...the disorders + [sic] tumult caused by the presence of the Soldiers, + the mob that soon after collected together + which might have increased so as to be ultimately attended with risk to the Establishment + its Officers.- ...it may be sufficient to state that for hours my person was menaced both by the Soldiers + the Mob outside; + that the entrance + departure of the Customers as well as of the Officers of the Bank were impeded." [507]

In a following letter, dated Sept. 21, Miranda explained how he was still afraid to come out of his home :

> "... the Judge issued fresh orders on the Tuesday... to arrest me; + [sic] to avoid the indignity of being thrust into a South American Jail, I am obliged to keep strictly with closed windows + doors (to estimate the inconvenience of which one must have lived within the Tropics) +

consequently am disabled in a great measure from attending to my business." [507]

Protests, such as the one extant made to Lord Palmerston by the directors on Nov. 4, 1848, were of little use. [508] The undated minutes of the 'Extraordinary Session of the Council of the Government of Venezuela' recorded that they simply dismissed the case as a judicial issue to be left to the courts and not significant enough to be considered a diplomatic matter requiring their intervention. [506] As for the courts, Miranda explained in a letter to Wilson, dated Jan. 24, 1850, that:

" On the 25th October the sentence of the Superior Court at last appeared, and Dr. Medina was acquitted, without however my being condemned in costs or required to pay the sentinels that had been posted at my door on the 28th August, and had subsequently remained." [506]

Working under such conditions was not easy. The court minutes of April 8, 1851 recorded Miranda's request in London not to return to Venezuela on account of his safety. A request the directors could not deny. [509]

That such insecurity was not limited to just the officers but extended to the property of the bank is clear from a series of correspondence between June and August 1849 concerning theft from the Estate of Villegas owned by the bank. Not surprisingly, the court ordered Miranda on May 14, 1850 to sell Villegas for $16000. [510]

Exposed to the hatred and enmity of a powerful competitor and risks to property and life, the Caracas branch was

not worth operating. The establishment committee recommended that the branch be closed by as early as Dec. 31, 1848. [511] But once again closing a branch was fraught with such problems as were discussed earlier. The court minutes of Dec. 11, 1849 noted some of these problems when it postponed the closing to June 1850 :

> "The Court then considered the state of matters at Caracas and the propriety of fixing a time for finally closing that Branch, and
>
> Resolved, That the Branch at Caracas be finally closed on 30th June next--that all Salaries there cease at that period, and that the Manager be directed to invite all Note holders, by public advertisement, to bring in Notes for payment by that date:- also to require all Depositors to withdraw their balances:- to give the necessary notice for terminating the occupancy of the Bank premises--and generally to do all that may be necessary for closing the Branch."
> [512]

What is interestingly missing from the list of the steps to be taken to close the branch is any reference to the recovery of the bank's outstanding debts in Venezuela. A good reason for this existed. In its sovereign right, the government of Venezuela had enacted a law on March 30, 1849 making it virtually impossible for creditors to collect their debts.

### (iii) IRRECOVERABLE BAD DEBTS : THE LAW OF ESPERA

The Colonial Bank's outstanding debts in Venezuela are extremely complicated and difficult to precisely understand. The voluminous material in the PRO contrasts sharply with the minimum

of material in the bank archives. In any case, a minute analysis is well beyond the limitations of this section. This section rather seeks to show the difficulty of collecting debts when the debtors were protected by the law. Or when they were, themselves, the law makers. The jealousy and hatred of powerful members of the Venezuelan government with interests in the rival National Bank have already been discussd. In turn, they found supporters in others who owed the Colonial Bank substantial sums of money. In the case, for example of Simon Planas & Co., the bank explained to Lord Russell in a letter dated May 28, 1862 that :

> "Nevertheless in a season of great moral corruption and general misgovernment our debtor rose high in Office; corrupt influences were brought into action in the Legislature and a special law was passed to which retroaction was arbitrarily given, and not only was execution upon the writ stayed, but our debtor was declared absolved from all his liabilities.
>
> At this time, it may be added our debtor had risen to a state of considerable opulence." [513]

It is not clear whether this was a law unique to Planas & Co. Nonetheless, a similar law for the use of any and all debtors, known as the Law of Espera was enacted by Congress on March 30, 1849. In a letter dated May 30th to Lord Palmerston, the Colonial Bank outlined its salient features :

--all debts could be suspended by the courts for a minimum (unless the debtor agrees otherwise) of 6 and a maximum of 9 years;

--interest was to cease from the grant by the courts of the suspension;

--no right of objection was allowed to the creditors and the Tribunals were authorized to appoint proxy for creditors who were absent or who refused to attend their hearings--the consent of one such proxy being regarded as consent on the part of all creditors;

--no renunciation by the debtor of his rights under the Law recognized--including legal proceedings under way and/or judgements handed down; and

--all liens and/or restrictions (e.g., upkeep of mortgaged houses) on the property of the debtors to be nullified.

It is interesting to compare this law with the debtor-creditor laws in the colonies, discussed earlier. The comparison reveals the relative weakness, once again, of banking in a foreign state. Whereas the Colonial Bank could use its influence and the legal rights granted to it by its charter to change such laws within the British Empire, in a foreign state the laws were changed against it. Miranda wrote to the directors on Aug. 4, 1849, that :

> "nothing, or next to nothing, is collected;--and to institute proceedings for the recovery of debts, is to invite an application for the benefit of the Law of espera. ...prudence dictates that we abstain from provoking any decision by which the securities of undoubted value that we possess, should be invalidated.- Our future course, as it seems to me, must be determined by the value which the Court may attach to the assurances of the British Government, that it will hold Venezuela liable for the damage and losses sustained... through the operation of the law of espera." [514]

The directors had repeatedly solicited the help of Lord Palmerston and HMG. A letter is extant marked 'Confidential' from Lord Palmerston, dated Nov. 5, 1849 [514], to the Admiralty noting that the Queen had commanded that if diplomacy failed a

fleet should set sail for Venezuelan waters to protect British rights. Although, this was urged upon HMG by the bank [515], HMG could not ignore the immense anti-British hostility that such a measure would arose. Already in May 1850, anti-Colonial Bank and anti-British placards were being distributed in Caracas :

"

1

IS VENEZUELA A NATION OR NOT

It corresponds to the Republic of the herioc people of Venezuela to demonstate whether Venezuela is a nation; and death would be a hundred thousand times preferable to the ignominy with which we are treated by the British Minister, disowning even the very form of our Government.

But what is it that the English Minister and the British Colonial Bank pretend, which in the event of refusal it will be held to be ground for declaring war upon us?

Hear it Venezuelans : What the Minister and the Bank pretend is, that all of you, mancomum et in solidum, shall pay the debts which the Bank had long since lost as irrecoverable, either by indefinite delays (esperas) it had granted in respect of them, as for example in the case of Mecsrs. Bueno and Betencourt, who are under process in the Insolvent Debtors Court (sujeta /a un concurso), or on account of bad speculations of the Bank, which directed its procurator, Camacho, to buy at auction outstanding debts of the bankruptcy of Whiting and Pelgron : this is the little trifle (ironically 'ganga') which the Minister and the Bank desire, and that every one of you, born and engendered, shall hypothecate yourselves in order to pay back interest and all other that may accrue.

But this is the question viewed in the light of pecuniary interests; and although you may know that the Minister and the Bank were the focus from whence emanated the revolution that gave rise to the Law of Espera, a law of circumstances which have occurred in every country, including England, it would be the least part of the question to make a donation of a few more millions to the English... but the question of the day is one of nationality.... Is Venezuela a nation or not? Has she or has she not power to make her own laws?... That is the question.... And the worthy Republic of Venezuela ought to reply to it with energy and pride... that Venezuela is a nation, and that she will cease to exist before she will consent that the Cabinet of St.James's [sic] or any other, shall interfere in the formation of her laws... before

consenting to ask permission of any European Monarch to enact this or that Law.

Venezuelans! to conquer or die was our motto in the War of Independence : let us die before submitting to the ignominy, to the contumely with which an English Minister this day insults us.

(signed) Various Venezuelans"

[506]

Diplomacy may well have been the wise political course of action. It also appeared to be the only financially feasible one. Camacho wrote the Foreign Office on June 8, 1851 that Venezuela could hardly afford or pay more than $1.5 million of the existing debts, at once. Therefore, even with interest being paid, the bank could only expect several years before it retrieved its outstandings. [515]

Rather than to retain the services of Miranda or another commission agent to collect its debts after the closure of the branch in June, [516] the court began negotiations to sell its receivables. [517] These had been estimated by Camacho in the above letter as being approximately $260000. The court offered in Feb. 1852 to sell them for £10500 but could not get, in March, more than £8500. Negotiations were broken off at the last offer by the bank of £9250. [518] In July, the court received an offer from their attorney, Camacho, to buy their outstandings. Although the exact figure and arrangements are not clear and continued to puzzle HMG (since even afterwards the bank continued to press its claims against the government of Venezuela), the court minutes of July 30, 1852 recorded the resolution to accept Camacho's offer. Assuming it had obtained

its asking price of £10000, at an exchange rate of $6.25 Venezuelan dollars to sterling, the bank had retrieved only $62500*. [519] Its foreign branch had cost it more that $200000 in bad and doubtful debts!

## (b) THE PERFORMANCE OF MULTI-BRANCH BANKING

Earlier sections have discussed the costs and benefits attributable to a network of branches and agencies. This section should have ideally focused upon the synergy to be found in multi-branch banking. Synergy being defined as the state in which the overall profits of a multi-branch operations exceeds the sum of its independent branch profits. Such a measurement of synergy, however, even with the available accounting data, in the Colonial Bank archives is well nigh impossible. In order to be theoretically valid, the extant financial data would need to be adjusted to reflect the independent performance of the branches. The extant data for capital employed, allocations of overheads, and the division of costs for inter-branch operations, for

---

*Footnote: The archives suggest that this may not have been the whole of the bank's receivables--hence the continued pursuit of debtors by the bank. The bad and doubtful debt account for 1856 showed £16365 written-off for losses from the Caracas branch. [520] Unfortunately, due to the disclosure practises of the bank--discussed in the next chapter--no details are extant, even in the internal accounts, to show how this net amount had been arrived at--beyond the £9375 for bills and £6990 for cash credits and current accounts. It suggests that the bank may have retrieved--including the sale to Camacho--more than £25235 of its total receivables: £260000 -/- 6.25 = £41600 - 16365 written-off in 1856 = £25235 that must have been retrieved. If so much of the praise must no doubt go to HMG and in particular H.M. Charge', H.B. Wilson.

example, are all based upon the fact that each branch is already a part of the whole network. To merely assume that each branch would have had the same performance as an independent bank is too simple and sterile. The sum total of the independent branches would merely be arithmetically the same as that of the group--implying that no synergy had existed. Trying to impute a theoretical estimate for the data is also not so promising. Without comparable single-branch data for the same time period, no empirical basis would exist to suggest what adjustments would be necessary.

These limitations restrict the interpertation and conclusions that can be derived from an analysis of the extant data. They do not, however, preclude the analysis. The internal accounts of the Colonial Bank, denominated in sterling, prepared from the superintendent's dollar abstracts, allow the revenue, the charges, and the operating profits of branches to be looked at from two vantage points. {521}

--the percentage contribution of each branch to the overall revenue and costs for a given half-year; and

--the percentage contribution of each branch to the change in the revenue and charges between any given two periods.

(i) DIMINISHING RETURNS IN REVENUE FROM INCREASING BRANCHES

The revenues generated by each branch were divided into 3 categories in the Colonial Bank:

1. exchange revenue
2. discount revenue, and
3. interest revenue

Each of these operations of the bank have been discussed in the chapter dealing with them as commercial and/or financial opportunities. The significant point to note, here, is that these figures reflect the gross revenue and charges associated with such operations. They do not say anything about net profits based upon the reorganization of the accounts to better reflect the workings of a branch as if it were an independent entity. The revenue is the amount reported by managers to the superintendent in their abstracts. The costs are the operating charges of the respective branches. The net difference can therefore only be a simple operating profit of the branches. Furthermore, being denominated in inconvenient units, of shillings and pence for the computer to be programmmed for the calculations, it was necessary to denominate them in pences. Table 21 shows the sum of these figures, for all the branches, between June 1845 and December 1850. Admittedly, by itself this data is of little significance. By using a computer, however, it is possible to calculate the percentage contribution of each category of revenue, for each branch, for every half-year, between 1845-1850. Table 22 shows, for example, that the Demerary branch, in June 1845, had contributed 6% of the total revenue of all branches from its discount operations, while 4% of the overall revenue had been contributed by its exchange operations. In the case of its interest operations, the branch had, in fact, made a negative contribution to the overall revenue by having paid more interest on its borrowings, such as

deposit accounts, than it received from its loans. The sum of these revenues, in turn, constitute the branch contribution (+ or - 1% due to the computer's rounding off of decimals) to overall revenues for any given half-year. Each branch, of course, also made a corresponding contribution to overall charges of the bank. It is interesting to note how the Tobago branch, closed in 1845, stopped making contributions and how the London office which did not have any retail banking operations therefore contributed very little or negative contributions to revenues but absorbed the lion's share of the charges. Such results helped serve as a control to ensure the reliability of the computer program in doing its calculations. The focus of attention, here, is upon the performance of the multi-branch operations. The strategic significance of the branch network is dispersed throughout Table 22 and requires a rearrangement and re-presentation in Table 23. Table 23 ranks the branches in descending order of contribution. First place, for example, was consistently given to the Kingston branch whose figures in Table 22 will match those in Table 23. Table 23 depicts the number of branches and their cummulative contributions. From this it is possible to see how many of the branches were contributing the major share of the revenue generated by the branch network. In other words, Table 23, allows a look at the extent to which the whole multi-branch network was responsible for the overall revenue of the bank. The results are rather surprising. Two branches were responsible for more than 30% of the revenue in all but one period. More than

TABLE 21
OPERATING PROFITS
OF THE
COLONIAL BANK BRANCH NETWORK
JUNE 1845--DEC. 1850
IN PENCE

| | REVENUE | COSTS | OPERATING PROFIT |
|---|---|---|---|
| JUNE 1845 | 8464970 | 4758065 | 3706905 |
| DEC. " | 11237570 | 4772509 | 6465061 |
| JUNE 1846 | 10255703 | 5098898 | 5156805 |
| DEC. " | 11911755 | 5136705 | 6775050 |
| JUNE 1847 | 13661854 | 5193944 | 8467910 |
| DEC. " | 10613264 | 5295785 | 5317479 |
| JUNE 1848 | 10508519 | 5238160 | 5270359 |
| DEC. " | 9326904 | 4887566 | 4439338 |
| JUNE 1849 | 7731791 | 4587684 | 3144107 |
| DEC. " | 6795060 | 4380240 | 2414820 |
| JUNE 1850 | 7500069 | 4475766 | 3024303 |
| DEC. " | 7914257 | 4485977 | 3428280 |

TABLE 22
COLONIAL BANK
BRANCH CONTRIBUTIONS TO TOTAL REVENUE AND CHARGES
JUNE 1845-DEC.1850

| | 1845 | | 1846 | | 1847 | | 1848 | | 1849 | | 1850 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | J | D | J | D | J | D | J | D | J | D | J | D |
| | | | | | BARBADOS | | | | | | | |
| % DISCOUNTS | 2 | 3 | 3 | 4 | 2 | 3 | 3 | 3 | 4 | 6 | 5 | 5 |
| % EXCHANGE | 3 | 2 | 2 | 3 | 2 | 2 | 6 | 2 | 7 | 5 | 6 | 6 |
| % INTEREST | 0 | 0 | -1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -1 | 0 |
| % REVENUE | 5 | 4 | 5 | 6 | 4 | 5 | 9 | 4 | 11 | 10 | 10 | 10 |
| % CHARGES | 6 | 6 | 6 | 6 | 6 | 5 | 8 | 7 | 8 | 7 | 8 | 7 |
| | | | | | DEMERARA | | | | | | | |
| % DISCOUNTS | 6 | 5 | 7 | 6 | 6 | 7 | 5 | 5 | 7 | 8 | 8 | 9 |
| % EXCHANGE | 4 | 4 | 5 | 5 | 7 | 8 | 5 | 9 | 4 | 9 | 5 | 6 |
| % INTEREST | -1 | 0 | 0 | 0 | 0 | 0 | 0 | -1 | -1 | 0 | -1 | 0 |
| % REVENUE | 9 | 9 | 12 | 12 | 13 | 15 | 10 | 13 | 10 | 16 | 13 | 14 |
| % CHARGES | 8 | 8 | 7 | 8 | 8 | 8 | 9 | 8 | 10 | 8 | 8 | 8 |
| | | | | | TRINIDAD | | | | | | | |
| % DISCOUNTS | 3 | 4 | 3 | 5 | 2 | 4 | 1 | 1 | 2 | 4 | 4 | 5 |
| % EXCHANGE | 7 | 3 | 8 | 2 | 9 | 3 | 15 | 8 | 16 | 7 | 11 | 6 |
| % INTEREST | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 0 | 0 | -1 | 0 | -1 |
| % REVENUE | 12 | 7 | 12 | 8 | 12 | 7 | 17 | 9 | 18 | 9 | 15 | 10 |
| % CHARGES | 7 | 7 | 6 | 8 | 7 | 6 | 8 | 7 | 8 | 9 | 8 | 7 |
| | | | | | BERBICE | | | | | | | |
| % DISCOUNTS | 4 | 4 | 4 | 4 | 4 | 4 | 2 | 1 | 1 | 0 | 1 | 0 |
| % EXCHANGE | 2 | 3 | 2 | 3 | 4 | 7 | 2 | 3 | 2 | 2 | 2 | 2 |
| % INTEREST | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | -1 | 0 | -1 |
| % REVENUE | 6 | 8 | 6 | 9 | 8 | 12 | 4 | 4 | 2 | 2 | 2 | 2 |
| % CHARGES | 3 | 4 | 3 | 3 | 3 | 3 | 4 | 4 | 3 | 3 | 3 | 2 |
| | | | | | TOBAGO | | | | | | | |
| % DISCOUNTS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % EXCHANGE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % CHARGES | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE 22: PAGE 2

| | 1845 | | 1846 | | 1847 | | 1848 | | 1849 | | 1850 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | J | D | J | D | J | D | J | D | J | D | J | D |
| | | | | | GRENADA | | | | | | | |
| % DISCOUNTS | 1 | 0 | 1 | 0 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 2 |
| % EXCHANGE | 0 | 0 | 1 | 0 | 1 | 1 | 2 | 1 | 2 | 2 | 2 | 2 |
| % INTEREST | -1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 0 | 1 | 1 | 0 | 1 | 1 | 2 | 2 | 3 | 3 | 3 | 3 |
| % CHARGES | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 |
| | | | | | ST.VINCENT | | | | | | | |
| % DISCOUNTS | 2 | 2 | 2 | 2 | 2 | 3 | 2 | 2 | 2 | 3 | 3 | 4 |
| % EXCHANGE | 2 | 1 | 1 | 1 | 2 | 2 | 5 | 4 | 5 | 5 | 5 | 3 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 4 | 3 | 4 | 3 | 4 | 5 | 8 | 6 | 8 | 7 | 8 | 6 |
| % CHARGES | 3 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| | | | | | ST.LUCIA | | | | | | | |
| % DISCOUNTS | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 |
| % EXCHANGE | 2 | 1 | 1 | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 1 | 1 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | -1 | 1 |
| % REVENUE | 3 | 2 | 2 | 3 | 3 | 2 | 3 | 2 | 2 | 6 | 2 | 3 |
| % CHARGES | 2 | 2 | 2 | 3 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| | | | | | DOMINICA | | | | | | | |
| % DISCOUNTS | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 1 |
| % EXCHANGE | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 1 | 2 | 1 |
| % INTEREST | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 3 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 4 | 3 |
| % CHARGES | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 2 | 2 | 2 | 2 | 2 |
| | | | | | ANTIGUA | | | | | | | |
| % DISCOUNTS | 1 | 2 | 2 | 2 | 1 | 2 | 2 | 2 | 3 | 4 | 4 | 4 |
| % EXCHANGE | 2 | 1 | 2 | 1 | 3 | 2 | 5 | 5 | 6 | 6 | 4 | 3 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 3 | 3 | 4 | 2 | 4 | 4 | 8 | 7 | 10 | 10 | 8 | 7 |
| % CHARGES | 3 | 5 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| | | | | | ST.KITTS | | | | | | | |
| % DISCOUNTS | 1 | 2 | 1 | 2 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| % EXCHANGE | 2 | 1 | 1 | 1 | 2 | 1 | 3 | 2 | 3 | 2 | 2 | 2 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 3 | 2 | 2 | 3 | 4 | 3 | 5 | 4 | 5 | 4 | 4 | 4 |
| % CHARGES | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 |

TABLE 22 : PAGE 3

| | 1845 | | 1846 | | 1847 | | 1848 | | 1849 | | 1850 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | J | D | J | D | J | D | J | D | J | D | J | D |
| | | | | | KINGSTON | | | | | | | |
| % DISCOUNTS | 9 | 8 | 10 | 8 | 6 | 8 | 6 | 5 | 7 | 10 | 10 | 9 |
| % EXCHANGE | 11 | 9 | 9 | 6 | 7 | 8 | 8 | 8 | 9 | 9 | 6 | 7 |
| % INTEREST | 0 | 2 | 2 | 3 | 2 | 4 | 5 | 5 | 4 | 2 | 2 | 1 |
| % REVENUE | 20 | 19 | 21 | 17 | 15 | 20 | 19 | 18 | 19 | 22 | 18 | 17 |
| % CHARGES | 12 | 11 | 12 | 12 | 12 | 12 | 13 | 13 | 11 | 14 | 14 | 13 |
| | | | | | MONTEGO BAY | | | | | | | |
| % DISCOUNTS | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 3 | 2 |
| % EXCHANGE | 2 | 2 | 1 | 1 | 2 | 2 | 1 | 1 | 2 | 2 | 2 | 2 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 4 | 3 | 2 | 2 | 3 | 2 | 1 | 2 | 3 | 4 | 5 | 4 |
| % CHARGES | 3 | 4 | 2 | 3 | 2 | 3 | 2 | 3 | 3 | 3 | 3 | 3 |
| | | | | | ST.THOMAS | | | | | | | |
| % DISCOUNTS | 2 | 2 | 2 | 4 | 2 | 1 | 2 | 1 | 1 | 1 | 1 | 2 |
| % EXCHANGE | 4 | 5 | 8 | 7 | 3 | 3 | 6 | 3 | 5 | 1 | 4 | 10 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 |
| % REVENUE | 6 | 7 | 11 | 11 | 5 | 4 | 7 | 4 | 6 | 4 | 5 | 11 |
| % CHARGES | 6 | 6 | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 4 |
| | | | | | PORTO RICO | | | | | | | |
| % DISCOUNTS | 1 | 0 | 2 | 3 | 2 | 3 | 3 | 2 | 1 | 0 | 1 | 1 |
| % EXCHANGE | 7 | 8 | 4 | 3 | 5 | 5 | 7 | 6 | 1 | 0 | 1 | 1 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % REVENUE | 8 | 8 | 6 | 5 | 7 | 8 | 9 | 7 | 1 | 0 | 2 | 2 |
| % CHARGES | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 2 | 1 | 2 | 2 |
| | | | | | ST.CROIX | | | | | | | |
| % DISCOUNTS | 0 | 0 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 0 | 0 |
| % EXCHANGE | 0 | 1 | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | -1 | 0 |
| % INTEREST | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 |
| % REVENUE | 1 | 1 | 0 | 1 | 1 | 1 | 2 | 1 | 0 | 2 | 0 | 0 |
| % CHARGES | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 2 | 7 | 7 |

TABLE 22: PAGE 4

| | 1845 | | 1846 | | 1847 | | 1848 | | 1849 | | 1850 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | J | D | J | D | J | D | J | D | J | D | J | D |
| | | | | | | CARACAS | | | | | | |
| % DISCOUNTS | 8 | 9 | 7 | 7 | 4 | 6 | 0 | 0 | 0 | 0 | 0 | 0 |
| % EXCHANGE | 6 | 0 | 1 | 4 | 0 | 6 | 1 | 1 | -1 | 0 | 0 | 0 |
| % INTEREST | 0 | 2 | 3 | 3 | 3 | 3 | 4 | 1 | 0 | 0 | 0 | 0 |
| % REVENUE | 13 | 12 | 11 | 14 | 8 | 16 | 6 | 2 | 0 | 0 | 0 | 0 |
| % CHARGES | 8 | 9 | 8 | 8 | 9 | 8 | 8 | 7 | 5 | 5 | 0 | 0 |
| | | | | | | LONDON OFFICE | | | | | | |
| % DISCOUNTS | 0 | 0 | -1 | -1 | -2 | -1 | -4 | -1 | -3 | -1 | -2 | -1 |
| % EXCHANGE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| % INTEREST | 0 | 11 | -2 | 1 | 9 | -8 | -9 | 13 | 1 | -1 | 4 | 4 |
| % REVENUE | 0 | 11 | -3 | 0 | 6 | -9 | -12 | 12 | -2 | -2 | 2 | 4 |
| % CHARGES | 23 | 22 | 28 | 28 | 27 | 29 | 21 | 21 | 24 | 25 | 24 | 30 |

TABLE 23
CUMULATIVE BRANCH CONTRIBUTIONS
TO TOTAL REVENUE
COLONIAL BANK
JUNE 1845--DEC. 1850

| | 1845 | | | | 1846 | | | | 1847 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RANK | J | E% | D | E% | J | E% | D | E% | J | E% | D | E% |
| 1 | 20 | | 19 | | 21 | | 17 | | 15 | | 20 | |
| 2 | 13 | 33 | 12 | 31 | 12 | 33 | 14 | 31 | 13 | 28 | 16 | 36 |
| 3 | 12 | 45 | 11 | 42 | 12 | 45 | 12 | 43 | 12 | 40 | 15 | 51 |
| 4 | 9 | 54 | 9 | 51 | 11 | 56 | 11 | 54 | 8 | 48 | 12 | 63 |
| 5 | 8 | 62 | 8 | 59 | 11 | 67 | 9 | 63 | 8 | 56 | 8 | 71 |
| 6 | 6 | 68 | 8 | 67 | 6 | 73 | 8 | 71 | 7 | 63 | 7 | 78 |
| 7 | 6 | 74 | 7 | 74 | 6 | 79 | 6 | 77 | 6 | 69 | 5 | 83 |
| 8 | 5 | 79 | 7 | 81 | 5 | 84 | 5 | 82 | 5 | 74 | 5 | 88 |
| 9 | 4 | 83 | 4 | 85 | 4 | 88 | 3 | 85 | 4 | 78 | 4 | 92 |
| 10 | 4 | 87 | 3 | 88 | 4 | 92 | 3 | 88 | 4 | 82 | 4 | 96 |
| 11 | 3 | 90 | 3 | 91 | 2 | 94 | 3 | 91 | 4 | 86 | 3 | 99 |
| 12 | 3 | 93 | 3 | 94 | 2 | 96 | 2 | 93 | 4 | 90 | 3 | 102 |
| 13 | 3 | 96 | 2 | 96 | 2 | 98 | 2 | 95 | 3 | 93 | 2 | 104 |
| 14 | 3 | 99 | 2 | 98 | 2 | 100 | 2 | 97 | 3 | 96 | 2 | 106 |
| 15 | 1 | 100 | 2 | 100 | 1 | 101 | 1 | 98 | 2 | 98 | 1 | 107 |
| 16 | 0 | | 1 | 101 | 0 | 101 | 0 | | 1 | 99 | 1 | 108 |
| 17 | 0 | | 1 | 102 | 0 | 101 | 0 | | 1 | 100 | 0 | 108 |
| 18 | 0 | | 0 | | -3 | 98 | 0 | | 0 | | -9 | 99 |

| | 1848 | | | | 1849 | | | | 1850 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RANK | J | E% | D | E% | J | E% | D | E% | J | E% | D | E% |
| 1 | 19 | | 18 | | 19 | | 22 | | 18 | | 17 | |
| 2 | 17 | 36 | 13 | 31 | 18 | 37 | 16 | 38 | 15 | 33 | 14 | 31 |
| 3 | 10 | 46 | 12 | 43 | 11 | 48 | 10 | 48 | 13 | 46 | 11 | 42 |
| 4 | 9 | 55 | 9 | 52 | 10 | 58 | 10 | 58 | 10 | 56 | 10 | 52 |
| 5 | 9 | 64 | 7 | 59 | 10 | 68 | 9 | 67 | 8 | 64 | 10 | 62 |
| 6 | 8 | 72 | 7 | 66 | 8 | 76 | 7 | 74 | 8 | 72 | 7 | 69 |
| 7 | 8 | 80 | 6 | 72 | 6 | 82 | 6 | 80 | 5 | 77 | 6 | 75 |
| 8 | 7 | 87 | 4 | 76 | 5 | 87 | 4 | 84 | 5 | 82 | 4 | 79 |
| 9 | 6 | 93 | 4 | 80 | 3 | 90 | 4 | 88 | 4 | 86 | 4 | 83 |
| 10 | 5 | 98 | 4 | 84 | 3 | 93 | 4 | 92 | 4 | 90 | 4 | 87 |
| 11 | 4 | 102 | 4 | 88 | 3 | 96 | 3 | 95 | 3 | 93 | 3 | 90 |
| 12 | 3 | 105 | 3 | 91 | 2 | 98 | 3 | 98 | 2 | 95 | 3 | 93 |
| 13 | 3 | 108 | 2 | 93 | 2 | 100 | 2 | 100 | 2 | 97 | 3 | 96 |
| 14 | 2 | 110 | 2 | 95 | 1 | 101 | 2 | | 2 | 99 | 2 | 98 |
| 15 | 2 | 112 | 2 | 97 | 0 | 101 | 0 | | 2 | 101 | 2 | 100 |
| 16 | 1 | 113 | 2 | 99 | 0 | 101 | 0 | | 0 | | 0 | |
| 17 | 0 | 113 | 1 | 100 | 0 | 101 | 0 | | 0 | | 0 | |
| 18 | -12 | 101 | 0 | | -2 | 99 | -2 | | 0 | | 0 | |

50% of the revenue was being generated by four branches, again, in all but one period. One-half the branch network generated more than 80% of the revenue! Or, in other words, the other half only generated 20% of the bank's revenue. This skewed distribution suggests that by closing down more than half the branches, the bank would only have reduced its revenue by 20%. Multi-branch banking was very soon subject to diminishing returns in its ability to generate revenue.

(ii) NIL OR NEGATIVE CONTRIBUTIONS TO THE CHANGE IN REVENUE

So far the data have been looked at in terms of how the revenue was divided among the branches in any given half-year. It is also possible to calculate the changes between the half-year periods and study the contributions made by the branches to the growth in revenues and charges. Tables 24, 25, 26 show the branch contributions to the changes in the respective categories of revenues and charges.

Each column in these tables will show how that operation changed (whether it rose + or fell -) and how much the respective branches had contributed to this change. For example, exchange operations, in Table 24, overall, had fallen between June and December 1845. In Barbados, it had also fallen. In fact, Barbados had contributed 26% of the overall fall. Discounts, in Table 25, had risen between June and December 1847. St.Thomas, however, had made a negative contribution of 31% of the overall change. Charges, in Table 27, had fallen between

TABLE 24
COLONIAL BANK
BRANCH CONTRIBUTIONS TO THE CHANGE IN
EXCHANGE OPERATIONS
JUN.1845-DEC.1850
%

| | J45.D45 | D45.J46 | J46.D46 | D46.J47 | J47.D47 | D47.J48 |
|---|---|---|---|---|---|---|
| BARBADOS | -26 | 21 | 69 | -3 | -5 | 20 |
| DEMERARA | 67 | -3 | 97 | 16 | -5 | -19 |
| TRINIDAD | -172 | 151 | -354 | 47 | -66 | 65 |
| BERBICE | 50 | -36 | 172 | 9 | 8 | -24 |
| TOBAGO | -1 | 0 | 0 | 0 | 0 | 0 |
| GRENADA | 4 | 6 | -13 | 2 | -1 | 9 |
| ST.VINCENT | -23 | 22 | -17 | 6 | -3 | 17 |
| ST.LUCIA | -32 | 1 | -1 | 8 | -13 | 8 |
| DOMINICA | 0 | -9 | 60 | 2 | 3 | 0 |
| ANTIGUA | -35 | 32 | -37 | 11 | -10 | 19 |
| ST.KITTS | -28 | -13 | 9 | 12 | -15 | 10 |
| KINGSTON | 38 | -28 | -135 | 11 | -7 | -1 |
| MO. BAY | 1 | -15 | 27 | 4 | -6 | -3 |
| ST.THOMAS | 129 | 94 | 26 | -19 | -11 | 14 |
| PORTO RICO | 141 | -142 | -90 | 17 | -9 | 8 |
| ST.CROIX | 27 | -13 | 49 | 0 | -3 | 4 |
| CARACAS | -241 | 32 | 237 | -22 | 44 | -25 |
| LONDON | 0 | 0 | 0 | 0 | 0 | 0 |
| | -101 | 100 | 99 | 101 | -99 | 102 |

| | J48.D48 | D48.J49 | J49.D49 | D49.J50 | J50.D50 |
|---|---|---|---|---|---|
| BARBADOS | -19 | 142 | -15 | 30 | 72 |
| DEMERARA | 14 | -208 | 22 | -51 | 274 |
| TRINIDAD | -35 | 174 | -54 | 87 | -1303 |
| BERBICE | 3 | -70 | 1 | 2 | 31 |
| TOBAGO | 0 | 0 | 0 | 0 | 0 |
| GRENADA | -8 | 39 | -3 | 8 | -77 |
| ST.VINCENT | -7 | 10 | -6 | 6 | -361 |
| ST.LUCIA | -5 | 1 | -4 | 6 | -55 |
| DOMINICA | -2 | -13 | -6 | 8 | -112 |
| ANTIGUA | -6 | 24 | -7 | -25 | -135 |
| ST.KITTS | -6 | 24 | -5 | -6 | -17 |
| KINGSTON | -5 | -11 | -4 | -41 | 128 |
| MO. BAY | 1 | 7 | 0 | 10 | -115 |
| ST.THOMAS | -14 | 45 | -19 | 58 | 1365 |
| PORTO RICO | -7 | -183 | -4 | 19 | 29 |
| ST.CROIX | -2 | -27 | 0 | -14 | 175 |
| CARACAS | -2 | -54 | 3 | 3 | 0 |
| LONDON | 0 | 0 | 0 | 0 | 0 |
| | -100 | -100 | -101 | 100 | -101 |

TABLE 25
COLONIAL BANK
BRANCH CONTRIBUTIONS TO THE CHANGE IN
DISCOUNTS OPERATIONS
JUN.1845-DEC.1850

| | J45.D45 | D45.J46 | J46.D46 | D46.J47 | J47.D47 | D47.J48 |
|---|---|---|---|---|---|---|
| BARBADOS | 9 | 2 | 14 | -13 | 16 | 0 |
| DEMERARA | 4 | 122 | 2 | 5 | -5 | -10 |
| TRINIDAD | 16 | -82 | 24 | -14 | 13 | -13 |
| BERBICE | 6 | 3 | 7 | -1 | -19 | -12 |
| TOBAGO | 0 | 0 | 0 | 0 | 0 | 0 |
| GRENADA | -1 | 5 | -1 | 0 | 7 | -2 |
| ST.VINCENT | 5 | -7 | 5 | -2 | 15 | -2 |
| ST.LUCIA | 4 | -15 | 4 | -1 | 2 | -4 |
| DOMINICA | 0 | 25 | 1 | -1 | 1 | -3 |
| ANTIGUA | 7 | 13 | -2 | -1 | 5 | 2 |
| ST.KITTS | 5 | -26 | 13 | -8 | 15 | -2 |
| KINGSTON | 12 | 126 | -13 | -9 | 6 | -9 |
| MO. BAY | 0 | 18 | -2 | 1 | -11 | -2 |
| ST.THOMAS | 0 | 62 | 18 | -11 | -31 | 3 |
| PORTO RICO | -1 | 145 | 10 | -6 | 9 | 0 |
| ST.CROIX | -1 | 21 | 2 | -1 | 0 | 2 |
| CARACAS | 33 | -252 | 16 | -18 | 17 | -32 |
| LONDON | 0 | -59 | 2 | -18 | 61 | -16 |
| | 98 | 101 | 100 | -98 | 101 | -100 |

| | J48.D48 | D48.J49 | J49.D49 | D49.J50 | J50.D50 |
|---|---|---|---|---|---|
| BARBADOS | -14 | 72 | 14 | -9 | 0 |
| DEMERARA | -19 | 84 | -4 | 31 | 14 |
| TRINIDAD | -13 | 88 | 17 | 12 | 25 |
| BERBICE | -20 | -42 | -3 | 3 | 0 |
| TOBAGO | 0 | 0 | 0 | 0 | 0 |
| GRENADA | 23 | -70 | 3 | 1 | 7 |
| ST.VINCENT | -13 | -1 | -1 | 16 | 15 |
| ST.LUCIA | -6 | 13 | 4 | 5 | -1 |
| DOMINICA | -1 | 25 | 7 | 5 | -4 |
| ANTIGUA | -12 | 53 | 4 | 7 | 6 |
| ST.KITTS | -2 | 11 | -5 | 2 | 2 |
| KINGSTON | -31 | 10 | 25 | 19 | 5 |
| MO. BAY | -2 | 27 | 5 | 27 | -5 |
| ST.THOMAS | -15 | -39 | 2 | -7 | 16 |
| PORTO RICO | -26 | -104 | -10 | 27 | 2 |
| ST.CROIX | -8 | -54 | 11 | -21 | 0 |
| CARACAS | -6 | 0 | 0 | 0 | 0 |
| LONDON | 64 | -174 | 32 | -18 | 19 |
| | -101 | -101 | 101 | 100 | 101 |

TABLE 26
COLONIAL BANK
BRANCH CONTRIBUTIONS TO THE CHANGE IN
INTERESTS OPERATIONS
JUN.1845-DEC.1850
%

| | J45.D45 | D45.46 | J46.D46 | D46.J47 | J47.D47 | D47.J48 |
|---|---|---|---|---|---|---|
| BARBADOS | -1 | 0 | 2 | 1 | 1 | -7 |
| DEMERARA | 1 | 4 | 8 | -1 | -2 | -26 |
| TRINIDAD | -5 | 7 | -15 | 1 | -1 | 37 |
| BERBICE | 9 | -8 | 27 | -8 | 2 | -648 |
| TOBAGO | 0 | 0 | 0 | 0 | 0 | 0 |
| GRENADA | 2 | -1 | -2 | 1 | 0 | 121 |
| ST.VINCENT | -1 | 2 | -1 | 1 | -1 | 88 |
| ST.LUCIA | -1 | 0 | 4 | -1 | -1 | 46 |
| DOMINICA | -4 | 1 | 0 | 0 | 0 | 21 |
| ANTIGUA | 1 | 1 | -15 | 7 | 2 | -198 |
| ST.KITTS | -1 | 0 | 1 | 2 | -1 | -23 |
| KINGSTON | 15 | -4 | 17 | 2 | 4 | 325 |
| MO. BAY | -1 | -1 | 4 | -1 | 1 | -38 |
| ST.THOMAS | 1 | 2 | 0 | -4 | 0 | -85 |
| PORTO RICO | 0 | 0 | 0 | 0 | 0 | 0 |
| ST.CROIX | 0 | -3 | 4 | 2 | 0 | -57 |
| CARACAS | 13 | 5 | 5 | 9 | -5 | 472 |
| LONDON | 69 | -104 | 63 | 90 | -100 | -129 |
| | 97 | -99 | 102 | 101 | -101 | -101 |

| | J48.D48 | D48.J49 | J49.D49 | D49.J50 | J50.D50 |
|---|---|---|---|---|---|
| BARBADOS | 0 | 1 | -33 | -21 | 25 |
| DEMERARA | -3 | 0 | 63 | -93 | 44 |
| TRINIDAD | -4 | 2 | -119 | 173 | -74 |
| BERBICE | 1 | -1 | -34 | 24 | -35 |
| TOBAGO | 0 | 0 | 0 | 0 | 0 |
| GRENADA | 0 | -1 | -7 | 6 | 10 |
| ST.VINCENT | 0 | -1 | -24 | -6 | -28 |
| ST.LUCIA | 1 | -1 | 244 | -497 | 132 |
| DOMINICA | 1 | 0 | -6 | 5 | -3 |
| ANTIGUA | -2 | 2 | 4 | -18 | -3 |
| ST.KITTS | 1 | 1 | -22 | 21 | -12 |
| KINGSTON | -3 | -13 | -117 | -20 | -65 |
| MO. BAY | 0 | 0 | 16 | -27 | 11 |
| ST.THOMAS | 1 | 0 | 81 | -211 | 56 |
| PORTO RICO | 0 | -1 | 8 | -12 | 17 |
| ST.CROIX | 1 | 0 | 80 | -12 | -89 |
| CARACAS | -22 | -4 | -37 | 0 | 0 |
| LONDON | 130 | -85 | -197 | 589 | 114 |
| | 102 | -101 | -100 | -99 | 100 |

TABLE 27
COLONIAL BANK
BRANCH CONTRIBUTIONS TO THE CHANGE IN CHARGES
JUN.1845-DEC.1850
£

| | J45.D45 | D45.J46 | J46.D46 | D46.J47 | J47.D47 | D47.J48 |
|---|---|---|---|---|---|---|
| BARBADOS | -141 | 12 | -34 | 40 | -82 | 299 |
| DEMERARA | 10 | -1 | 19 | 54 | -12 | 126 |
| TRINIDAD | 64 | 2 | 226 | -76 | -40 | 126 |
| BERBICE | 37 | 0 | -18 | 12 | -2 | 25 |
| TOBAGO | 12 | -18 | 0 | 0 | 0 | 0 |
| GRENADA | -142 | 0 | 1 | 31 | 1 | -28 |
| ST.VINCENT | -329 | 2 | 29 | -7 | -4 | 32 |
| ST.LUCIA | -47 | 0 | 133 | -69 | 16 | 0 |
| DOMINICA | -97 | 6 | -75 | 30 | 14 | 17 |
| ANTIGUA | 580 | -18 | -62 | 12 | -6 | 40 |
| ST.KITTS | -98 | 3 | -33 | 26 | -3 | -4 |
| KINGSTON | -230 | 21 | -15 | 4 | 28 | 58 |
| MO. BAY | 143 | -15 | 4 | -19 | 33 | -52 |
| ST.THOMAS | -2 | -3 | 38 | -21 | 8 | 19 |
| PORTO RICO | 13 | 3 | -37 | 40 | 13 | -2 |
| ST.CROIX | -6 | -1 | 2 | 4 | -2 | 4 |
| CARACAS | 414 | -13 | 5 | 109 | -15 | -21 |
| LONDON | -82 | 120 | -82 | -68 | 153 | -737 |
| | 99 | 100 | 101 | 102 | 100 | -98 |

| | J48.D48 | D48.J49 | J49.D49 | D49.J50 | J50.D50 |
|---|---|---|---|---|---|
| BARBADOS | -18 | 5 | -33 | 89 | -670 |
| DEMERARA | -25 | 23 | -45 | -1 | -159 |
| TRINIDAD | -13 | 8 | 7 | -58 | -189 |
| BERBICE | 4 | -25 | 1 | -5 | -109 |
| TOBAGO | 0 | 0 | 0 | 0 | 0 |
| GRENADA | 1 | 0 | 1 | 3 | 54 |
| ST.VINCENT | 4 | 1 | -8 | 10 | -66 |
| ST.LUCIA | -1 | 3 | -14 | 1 | 1 |
| DOMINICA | -7 | 1 | -1 | -1 | 31 |
| ANTIGUA | -4 | 0 | -2 | 2 | 131 |
| ST.KITTS | 12 | -6 | -6 | 1 | -8 |
| KINGSTON | -10 | -41 | 49 | 30 | -676 |
| MO. BAY | 3 | 0 | -8 | 4 | 8 |
| ST.THOMAS | 8 | -13 | -3 | -1 | -865 |
| PORTO RICO | -11 | -48 | -20 | 38 | -2 |
| ST.CROIX | 1 | 15 | -24 | 232 | 242 |
| CARACAS | -20 | -42 | -4 | -212 | -146 |
| LONDON | -23 | 18 | 12 | -32 | 2524 |
| | -99 | -101 | -98 | 100 | 101 |

TABLE 28
FREQUENCY OF BRANCH CONTRIBUTIONS
NIL OR NEGATIVE TO REVENUE
AND
POSITIVE TO CHARGES
COLONIAL BANK
JUNE 1845--DEC. 1850

| | EXCHANGE | DISCOUNT | INTEREST | CHARGES |
|---|---|---|---|---|
| BARBADOS | 5 | 5 | 6 | 5 |
| DEMERARA | 5 | 4 | 6 | 5 |
| TRINIDAD | 6 | 4 | 6 | 6 |
| BERBICE | 3 | 7 | 6 | 5 |
| TOBAGO | 11 | 11 | 11 | 1 |
| GRENADA | 5 | 5 | 6 | 7 |
| ST.VINCENT | 6 | 6 | 8 | 6 |
| ST.LUCIA | 6 | 5 | 6 | 5 |
| DOMINICA | 7 | 5 | 7 | 6 |
| ANTIGUA | 7 | 3 | 5 | 5 |
| ST.KITTS | 7 | 5 | 6 | 4 |
| KINGSTON | 8 | 4 | 6 | 6 |
| MONTEGO BAY | 5 | 6 | 7 | 6 |
| ST.THOMAS | 4 | 6 | 6 | 4 |
| PORTO RICO | 6 | 6 | 9 | 5 |
| ST.CROIX | 7 | 7 | 7 | 7 |
| CARACAS | 6 | 8 | 6 | 3 |
| LONDON OFFICE | 11 | 6 | 5 | 5 |
| TOTAL PERIODS | 11 | 11 | 11 | 11 |
| THE MEAN | 6.05 | 5.42 | 6.26 | 5.06 |
| THE ST'D DEV'N | 2.42 | 2.14 | 2.02 | 1.39 |
| THE VARIANCE | 5.84 | 4.56 | 4.09 | 1.94 |

December 1848 and June 1849. Tobago which was closed, Grenada, Antigua, and Montego Bay had remained unchanged and therefore made no contribution to this fall. In order to see the number of branches that had made nil or negative contributions to revenue and positive contributions to charges, it is necessary to rearrange and re-present the data in these tables above. This is done in Table 28. It shows that in the 11 periods of change measured Tobago made nil or negative contributions to changes once. This was clearly in line with the earlier known fact that Tobago was closed after 1846. This serves as a valuable control to check the data. Table 30, then, gives another perspective of the performance of the multi-branch network--its contribution to change over time. The fact that in each respective operation nil or negative contributions were made by the following number of the 18 branches, for equal or greater than five and six times:

| | SIX | FIVE |
|---|---|---|
| Exchange Operations | 12 | 17 |
| Discount " | 9 | 14 |
| Interest " | 16 | 18 |

suggests that multi-branch banking could not be relied upon in a majority of cases to make a positive contribution to revenues. The fact that 7 branches made positive contributions to charges for SIX or more of the 11 periods and 14 branches did when the frequency was lowered to FIVE periods suggests that the network could be more relied upon to either hold charges constant or reduce them over time.