

## London and the British Empire: c. 1815 – 1914

In 1863 a London merchant writing to his partner in Calcutta observed that ‘stocks of every article are large, larger than usual, and it is evident that this country is more than ever the entrepot for the world’.<sup>1</sup> With British commerce went above all finance from London. As Francois Crouzet has put it, not only was it the case in the 1860s that ‘since the Napoleonic Wars, London had been the financial centre of the world, the mart where international transactions were financed and settled and where foreigners could lend or borrow money freely’. The continuing expansion of British and world trade, British participation in international banking and overseas investment, and the development of Britain’s colonial empire subsequently ensured that ‘this activity expanded enormously and took on a new dimension in the second half of the nineteenth century, and especially after 1880’.<sup>2</sup> Such comments by contemporary participants and later historians either suggest or have been interpreted to mean that the years 1815 – 1914 represent a period of more or less unbroken dominance for London. The age of the Pax Britannica, ‘Britain’s imperial century’, was also London’s century as a city of finance, hub of the United Kingdom, and principal motor of a global economy.

Some recent work has attempted to redefine this picture.<sup>3</sup> It suggests that the predominance of London and south-eastern England within the UK’s national economy, and the primary role of metropolitan London’s financial interests rather than provincial Britain’s industrial requirements, shaped the pattern of Britain’s economic and territorial expansion overseas. This revision has been seriously challenged in its turn, as misrepresenting London’s place in the economic and social structure of British capitalism, and underestimating important international and peripheral factors which not only restricted the City of London’s power to de-

<sup>1</sup> C.B. Skinner to C.H. Brown 18 June 1863, *Jardine Skinner Papers*, Cambridge.

<sup>2</sup> F. Crouzet, *The Victorian Economy* (1982), 334 – 5.

<sup>3</sup> Especially P.J. Cain and A.G. Hopkins, ‘The Political Economy of British Expansion Overseas, 1750 – 1914’, *Economic History Review*, xxxiii, 4 (1980), 463 – 90; *ibid.*, ‘Gentlemanly Capitalism and British Expansion Overseas. I. The Old Colonial System; 1688 – 1850’, and ‘II. New Imperialism, 1850 – 1945’, *EcHR*, xxxix, 4 (1986), 501 – 25, and xl, 1 (1987), 1 – 26; *ibid.*, *British Imperialism*, 2 vols. (London, 1993).

termine the shape of British expansion, but independently contributed a powerful dynamism of their own.<sup>4</sup>

In examining some of the financial and commercial relationships between London and the nineteenth-century empire, this paper attempts to explore further areas relevant to this general debate. The existence of a world-wide British 'informal empire', product of an 'imperialism of free trade' occasionally reinforced with official intervention, is still much debated and has been frequently qualified. Here, therefore, the hypothesis of metropolitan dominance is considered in the light of evidence from the 'formal' colonial empire, large areas of which are given scant consideration in Cain and Hopkins' two recent volumes. The paper suggests that in British territories overseas, although assertions as to London's commanding position, at once world-wide and imperial, may perhaps be appropriate at certain times, they are too readily extended to cover the whole century. The general point has been made elsewhere, for example by Neil Charlesworth, that 'British-centred accounts of the international economy may create a false impression of an ordered, schematised and historically stable system. Yet the international pattern of multi-lateral payments, in which India features so prominently, operated in so organised a way only briefly in the two or three decades before 1914'.<sup>5</sup>

In reality, the ingredients of an imperial financial network were only slowly assembled and given practical effect during the nineteenth century. The piece-meal nature of this process both delayed the establishment of metropolitan regulation and control, and left room at all times for significant assertions of individual and regional independence. In the end London's unchallenged role at the heart of even an imperial financial system was both less assured and more short-lived than is often implied by the hyperbole of British global dominance.<sup>6</sup>

## I

The formal empire which emerged from the eighteenth-century French and Napoleonic Wars was a truncated, moth-eaten affair. A sprawling assemblage of territories, it was also a strategic nightmare, protected as much by the absence of

<sup>4</sup> M.J. Daunton, "'Gentlemanly Capitalism' and British Industry 1820–1914', *Past and Present* 122 (1989), 119–58; Andrew Porter, "'Gentlemanly Capitalism' and Empire: the British experience since 1750?', *Journal of Imperial and Commonwealth History*, 18, 3 (1990), 265–95; P.J. Marshall, 'An Empire of Investors', *Times Literary Supplement*, 20 August 1993; S. Chapman, *Merchant Enterprise in Britain: From the Industrial Revolution to World War I* (Cambridge, 1992).

<sup>5</sup> N. Charlesworth, *British Rule and the Indian Economy 1800–1914* (1982), 51.

<sup>6</sup> For the concepts of 'informal empire' and the 'imperialism of free trade', see John Gallagher and Ronald Robinson, 'The Imperialism of Free Trade', *Economic History Review* vi,1 (1953), 1–15; and for the subsequent debate, Wm. Roger Louis (ed.), *Imperialism. The Robinson and Gallagher Controversy* (New York, 1976). The most recent contributions include Martin Lynn, 'The Imperialism of Free Trade and the Case of West Africa, c. 1830–1870', *Journal of Imperial and Commonwealth History* xv, 1 (1986), 22–40; and Colin Newbury, 'The semantics of international influence; informal empires reconsidered', in: Michael Twaddle (ed.), *Imperialism, the State and the Third World* (London, 1992), 23–66.

threats as by rationally deployed force, and lacking any political or economic unity. Before and after 1815, the initial acquisition of formal empire rarely took place in areas of substantial economic activity. In the nineteenth century, a continuous process of patchy, sporadic expansion added immensely to Britain's imperial possessions, but did little to enhance the functional rationale of the whole. Until the late eighteenth century, within the framework of the Atlantic trading system, the overlap between spheres of British political control and economic interest was substantial. By 1815, however, the mismatch had become considerable. The failure of plans for imperial reorganization before 1914 arose largely from reluctance to recognize a central feature of Britain's circumstances, namely the persistent disjunction between formal empire and her vital overseas economic interests.

This marked separation was evident to many contemporaries even at the start of our period. Not only was continental Europe Britain's main trading partner as she had been by a large margin for a very long time. The United States after independence also remained of great importance, accounting even in 1814–16 for 5.5% of Britain's imports and 15.3% of exports.<sup>7</sup> After 1815, despite the economic development and renewed territorial growth of formal empire, the divide continued to exist if not to widen. In a most influential article the point was made as follows. 'Between 1812 and 1914 over twenty million persons emigrated from the British Isles, and nearly 70% of them went outside the Empire. Between 1815 and 1880, it is estimated, £ 1,187 million in credit had accumulated abroad, but no more than one sixth was placed in the formal empire. Even by 1913, something less than half of the £ 3,975 million of foreign investment lay inside the Empire. Similarly, in no year of the century did the Empire buy much more than one-third of Britain's exports'.<sup>8</sup>

Imports from imperial sources remained throughout at c.25% of the total, or 20% if re-exports are deducted. Britain's participation in the commercial opportunities presented by the gradual opening up of new areas of the globe to an expanding world economy, took place on a far greater scale than that represented by her involvement in the enterprise of her own formal empire.

This is not to say that patterns of empire trade remained unchanged. Imports from the West Indian colonies declined sharply from their early nineteenth century levels, whereas foodstuffs and other commodities from the white-settlement colonies (for example, dairy produce, wheat and wool from Australia and New Zealand, Canadian timber, or gold from South Africa) were very significant by 1900. The proportion of cottons and textiles among British exports declined steadily in favour of items such as coal, metal goods and other consumer products. The relative importance of different export markets also altered, as, for example, South

<sup>7</sup> Ralph Davis, *The Industrial Revolution and British Overseas Trade* (Leicester, 1979), Tables at 97, 116–7.

<sup>8</sup> Gallagher and Robinson, 'Imperialism of Free Trade', reprinted in A.G.L. Shaw, *Great Britain and the Colonies 1815–1865* (1970), quotation at p. 148. See also P. Bairoch, 'European trade policy, 1815–1914', *The Cambridge Economic History of Europe* VIII, (eds.) P. Mathias and M. Postan, (Cambridge, 1989), ch. 1, 83–4 and *passim*.

Africa burgeoned after 1890 and India moved up to become by 1913 the single most important purchaser of British manufacturers.<sup>9</sup>

Recognition of these different phenomena – territorial expansion throughout the period, the fundamental incoherence of colonial empire, the relatively limited amount of intra-imperial trade and investment, and the special importance of a few particular imperial trading partners – is essential to a proper grasp of London's emergence as 'a node of commerce, credit and capital' for the empire. They are characteristics which point to inevitable elements both of colonial dependence on London, but also to their independence of (or even irrelevance to) the capital and its services. Let me first take some of the close connections.

Colonial dependence was derived partly from the accident of timing, in the sense that London as the national capital, seat of central government, and the greatest city in the country, was the site of a great many colonial interests well before the nineteenth century. Notwithstanding the regional interest of provincial merchants and ports like Bristol, Liverpool and Glasgow in the West Indian, American and Canadian trades, London's pull as a market and source of venture capital had always been strong, especially allied as it was to political influence and patronage. The Hudson's Bay Company and the East India Company, for example, were essentially City institutions, and the Port of London monopolised the East India trade. Markedly independent as the Scottish interests in Canada and India later became, their routes into the chartered companies and overseas, like that of investors in the East India Company from the Netherlands in the eighteenth century, initially ran via the streets of the City and Westminster.<sup>10</sup>

In so far as these perspectives, customs and expertise survived the upheavals of 1776–1815, so London's familiarity with the finance and economics of imperial connections was already commonplace early in the nineteenth century. There was little new for Londoners to learn, for instance, about a wide range of traditional financial and commercial functions which linked colonies to the metropole – the chartering and equipping of ships, insurance, the assembly of cargo and distribution of imports, the acceptance and discounting of bills of exchange or the handling of other remittances, and the export of bullion and specie. For many people in Britain concerned to take advantage of the new colonial possibilities emerging during the nineteenth century, as well as expatriates with similar preoccupations, this historical legacy made London a natural place to start. Thus the joint-stock New Zealand Company was established in 1838 by Londoners, notwithstanding the considerable New South Wales interest in the territory.<sup>11</sup>

London's role did not necessarily entail the eclipse of Britain's provincial centres

<sup>9</sup> Seymour Drescher, *Econocide: British Slavery in the Age of Abolition* (Pittsburgh, 1977); D.C.M. Platt, 'The National Economy and British Imperial Expansion before 1914', *JICH*, 11 (1973); B.R. Tomlinson, 'India and the British Empire, 1880–1935', *Indian Economic and Social History Review* 12,4 (1975), 337–79; D.A. Farnie, *The English Cotton Industry and the World Market 1815–1896* (Oxford, 1979), 96–108; Andrew Porter, *Victorian Shipping, Business and Imperial Policy* (Woodbridge, 1986).

<sup>10</sup> C.H. Philips, *The East India Company 1784–1834* (Manchester, 1940, repr. 1961)

<sup>11</sup> W.H. Oliver (ed.), *The Oxford History of New Zealand* (1981) 59–61.

with their dominant interest in particular colonial trades. Many of these not only persisted but in the nineteenth century were extended in new directions. Liverpool's involvement with the West African palm oil trade increasingly drew on British colonial sources. The opening of the Suez Canal and the growth of steam shipping enabled Glasgow to develop a substantial trade with west and south Africa, Egypt after 1882, and India. Manchester in the 1890s could be regarded as 'almost an Anglo-Indian city'. London, however, continued both to retain its old commercial footings and to find a place for development of the new on an unparalleled scale. In the process, not only were many of the very direct links between commerce and finance slowly broken, but other financial networks were constructed, linking London with colonial territories old and new.<sup>12</sup>

In broad terms the change has been described by S.B. Saul. A disconnected series of localised trade and settlement patterns established in the eighteenth or very early nineteenth century was replaced after 1870 by a much more complex, global system of exchange. This new system reflected the marked expansion of European and American manufacturing capacity, and the greatly expanded world demand for primary products, but was nevertheless centred on Britain. 'Largely because of her free-trade policy, [she] was a major importer of manufactured goods, but, on the other hand, she was also the most important exporter to the majority of the extra-European primary producers. In addition, she was the greatest creditor nation, and enjoyed a very large income from so-called 'invisible' payments. In this way the circle was closed. By exports to primary producers, through shipping, banking and other services and interest receipts, Britain paid indirectly for her own excess of imports from industrial countries, and enabled these countries to finance their imports of primary products'.<sup>13</sup> That many of the primary producers, notably India, were British colonial possessions gave the empire a significant place in the new structure. With the altered pattern of world trade went a simplified mechanism of multi-lateral settlements, in which movements of bullion and bills of exchange were substantially replaced by 'fluctuations in the size of sterling balances held by foreign banks in London'.<sup>14</sup>

<sup>12</sup> Martin Lynn, 'Change and continuity in the British Palm Oil Trade with West Africa, 1830–55', *Journal of African History* 22 (1981), 331–48; *ibid.*, 'From Sail to Steam: the impact of the steamship services on the British Palm Oil Trade with West Africa, 1850–1890', *JAH* 30 (1989), 227–45; Barrie M. Ratcliffe, 'Commerce and Empire: Manchester Merchants and West Africa, 1873–1895', *JICH* VII, 3 (1979), 293–320; W. Thompson, 'Glasgow and Africa: Connections and Attitudes, 1870–1900', (unpub. Ph.D thesis, Univ. of Strathclyde, 1970); J. Forbes Munro, 'Scottish Overseas Enterprise and the Lure of London: The Mackinnon Shipping Group, 1847–1893', *Scottish Economic and Social History* 8 (1988), 73–87; Farnie, 5.

<sup>13</sup> S.B. Saul, *Studies in Overseas Trade 1870–1914* (Liverpool, 1960), 45.

<sup>14</sup> *Ibid.*, 43.

## II

Among the agents of this transformation, it is worth considering the introduction or reshaping of currency systems, in which the role of both the imperial and colonial governments was necessarily of some importance. The establishment of colonial governments required the development of financial links with London in order to manage the everyday conduct of administration. Civil officials and military garrisons needed to be paid, and colonial government required endless stores and supplies, many of them not found locally; local revenue collection, the payment of indigenous employees and, on occasion, the conduct of war similarly necessitated the supply and maintenance of a stable, convertible currency.

At its most extreme, the difficulties inherent in such a situation can be seen in New South Wales where, for more than two decades after its foundation in 1788, the government commissariat's store receipts and bills of exchange drawn on the Treasury in London were indispensable to local economic life.<sup>15</sup> Of course, in many colonies developed in the 19th century, currency and capital were first supplied by private British migrants, traders and other entrepreneurs. Nevertheless, even where officialdom took advantage of established networks, many of which (as in the case of West Africa) were closely tied to cities other than London, a degree of orientation towards the metropolis inevitably followed.

This development was shaped significantly by imperial government intervention and regulation. The absence of any standardised currency system in the colonies was no more satisfactory than the confusion affecting Britain at home since 1797 when cash payments were suspended. The return to the domestic gold standard in 1816/17 was thus followed by attempts in the 1820s to extend it to the colonies. After abortive imperial efforts to introduce distinct local standards, three methods were adopted. Recognizing both the political need to beware of alienating troops unduly and the local economic significance of colonial garrisons, an Order-in-Council in 1825 introduced the principle of government accounting and payment in sterling. This confirmed as Treasury policy promotion of the widest possible use of sterling throughout the empire.<sup>16</sup> Sterling equivalents were laid down for certain major currencies circulating in British possessions such as Spanish dollars, and in some cases small-value coins, designed to be acceptable locally while also fitting into Britain's domestic arrangements, were issued from London.<sup>17</sup>

Yet the success of these early moves varied greatly. In Britain itself by 1850 there circulated a gold coinage and, under the Bank Charter Act of 1844, freely convertible Bank of England notes. These were backed by the Bank's gold reserves, and provided a basis for the operation of either a gold or a gold-exchange standard

<sup>15</sup> S.J. Butlin, *Foundations of the Australian Monetary System 1788 – 1851* (Melbourne, 1953; repr. Sydney, 1968).

<sup>16</sup> The standard work is R.A. Chalmers, *A History of Currency in the British Colonies* (1893); for the Order-in-Council, 23 March 1825, see pp. 23 – 31. See also [James Pennington], *The Currency of the British Colonies* (1848; repr. New York, 1967).

<sup>17</sup> For an excellent survey, W.H. Chaloner, 'Currency problems of the British empire, 1814 – 1914', in Barrie M. Ratcliffe (ed), *Great Britain and Her World, 1750 – 1914* (Manchester, 1975), ch.8.

throughout the empire. London's public service payments in the colonies, especially for military wages, were gradually systematised under the Treasury Chest Acts of 1833 and 1877: by 1900 imperial government funds were deposited in some seventeen fixed locations throughout the empire.<sup>18</sup> Such steps contributed to orderly progress, for example, in Cape Colony, where standardization of the currency was achieved rapidly after 1825, despite popular discontent with the deflation involved. However, in other places local resistance or the restricted nature of trade and banking facilities long delayed any progress. Imperial control over the Royal Mint made possible the refusal of specie to colonial governments and banks until they 'had guaranteed the security of the coin issue through deposits of bullion and gilt-edged securities' in London; nevertheless, official demands for uniformity were virtually abandoned in the British West Indies in 1838 and in West Africa from 1843. Although Jamaica and the Bahamas adopted the sterling system in 1838, Trinidad and British Honduras still remained outside even in 1914.<sup>19</sup> In West Africa, where British territory expanded rapidly late in the century, the process of assimilation was not resumed until the establishment of the Bank of British West Africa (1894) and the West African Currency Board (1912).

Powerful obstacles thus existed to the establishment of London's sterling supremacy. These were also evident in the existence of competing monetary and commercial systems. In North America Canada's trading links with the United States to some extent worked successfully against London's influence. Between 1858 and 1871 Canadian governments' growing independence in commercial policy, the process of British North American political federation, and United States economic recovery after the Civil War, all contributed to the alignment of dollars and cents on both sides of the 49th parallel. This reflected the fact that, despite the importance of Anglo-Canadian trade and investment to both partners, 'Canadian economic development as a whole, especially during the half century or more to 1914, was closely geared to the pattern of growth of the United States'.<sup>20</sup> In consequence the 'Canadian monetary system before 1914 was in effect a gold- (or US dollar-) exchange standard operated, in the absence of a central bank, by the chartered banks themselves', and 'the great bulk of the outside reserves of the Canadian banking system was held at all times in the United States'.<sup>21</sup> Canadians preferred dollar reserves to sterling balances, because of the higher interest rates often obtainable in New York and the minimal loss if conversion into gold was necessary.

Government in India at first also pulled in contrary directions despite the long-standing London connection. Local conditions and the expense of any alternative dictated the East India Company's choice in 1806 of a silver standard, and by 1835

<sup>18</sup> Richard M. Kesner, *Economic Control and Colonial Development: Crown Colony Financial Management in the Age of Joseph Chamberlain* (Westport, Conn., 1981), 167, 263 n.69.

<sup>19</sup> Kesner, 146; Chaloner, 196–99.

<sup>20</sup> Saul, 169, and Ch.vii 'British Trade with the Empire I; Canada'; see also A.G. Ford, 'International Financial Policy and the Gold Standard, 1870–1914', in: *Cambridge Economic History of Europe* viii, ch.3, 241–5.

<sup>21</sup> A.I. Bloomfield, *Short-Term Capital Movements under the Pre-1914 Gold Standard* (Princeton, 1963), 62–3, 65.

silver was established everywhere as legal tender. Gold was demonetized in 1853. Following the end of Company control, currency and note issue from 1861 onwards became the Government of India's monopoly. The official drive towards standardization with its goal of a strong currency was encouraged by the government's revenue needs, the necessity for sustaining its credit as a borrower, and the obligation to cover its sterling payments – the 'Home Charges' – in London.<sup>22</sup> To meet the latter it became the practice for the Government of India to sell the equivalent Council Bills in London for gold to those who wanted rupee credits available in India.<sup>23</sup>

The equilibrium of this system was destroyed, first, by the fall in the gold price of silver and rapid rupee inflation after 1870. After considerable cost, difficulty and debate, the Government of India was permitted in 1893 to close its mints for the free coinage of silver, and to stabilize the rupee in 1898 at 15 to the pound sterling. Having thus adopted a gold-exchange standard, it also began to build up a substantial reserve with the Bank of England against the possibility of further change to a gold standard, and to accumulate ordinary funds in London by the sale of Council Bills far in excess of its immediate gold requirements. There seems little doubt that this pattern of monetary policy was adopted in Calcutta as a direct result of India's colonial status, and that it was consciously sustained by the imperial government for the direct benefit of British industry and commerce and as a contribution to the City's financial stability. It was nevertheless a shortlived adjustment; by the 1920s, political and economic conditions in India were such that local control of India's financial and commercial policies was being strongly reasserted.

Colonies adjacent to the powerful Indian economy were also affected by these developments. In 1876 Mauritius finally abandoned its vain attempts to sustain a gold standard, and adopted the Indian rupee. In the early 1900s, Singapore followed India's example in the opposite direction, and moved towards a gold-exchange standard with reserves kept in London. In a similar fashion, New Zealand, anxious to avoid the drain of its resources into Australia, developed its direct links with London as a counterweight.<sup>24</sup>

The search for a stable colonial currency and an imperial standard thus met varying degrees of success. London's influence was patchy and only part of the story. In different colonial circumstances relative indifference to the metropole could persist throughout this period, while elsewhere local initiatives created a variety of closer ties to London.

<sup>22</sup> The Home Charges covered costs of government supplies, pensions, Indian army and other administrative expenses.

<sup>23</sup> This paragraph is derived from Marcello de Cecco, *Money and Empire: The International Gold Standard, 1890–1914* (Oxford, 1974), ch.4; Dietmar Rothermund, 'The Monetary Policy of British Imperialism', *Indian Economic and Social History Review* 7,1 (1970), 91–108; John Adams and Robert Craig West, 'Money, Prices, and Economic Development in India, 1861–1895', *Journal of Economic History* 39,4 (1979), 55–68.

<sup>24</sup> W.E. van Nelson, 'The Gold Standard in Mauritius and the Straits Settlements between 1850 and 1914', *JICH* xvi, 1 (1987), 48–76; *Oxford History of New Zealand*, 67–72.

### III

In pursuit of its sterling policy the British Treasury also relied on a parallel expansion overseas of private banking.<sup>25</sup> Gold would be circulated via the setting-up either of colonial branches by banks based in London or, more slowly, of locally-promoted colonial banks. Setting its face hard against both currency operations involving sterling and note issue by Crown Colony governments (by 1854 only the government of Mauritius retained its own note issue), the Treasury from 1833/34 laid down regulations under which banks might obtain Royal Charters or colonial government acts of incorporation governing their operation.<sup>26</sup> When its faith in these arrangements was eventually shaken by the difficulties caused in Ceylon when the Oriental Bank collapsed in 1844, the imperial government again began to encourage colonial government note issues on condition they were backed, as in the case of the banks, by carefully-regulated reserves. Where banks had been very slow to develop, as in the West African colonies, this was a welcome relaxation of imperial restraints. However, Treasury control remained a powerful reality in all Crown Colonies. With respect to the private sector, official controls were further extended in the mid-1890s: formal procedures were introduced for reviewing banks' reserves, in response to the spread of limited-liability, joint-stock banking.<sup>27</sup>

However, both 'imperial' banks (of metropolitan origin) and 'anglo-colonial' banks (local enterprises which soon established important London branches) were often slow to develop. The growth of foreign exchange banks in India followed the commercial crisis of the 1840s and the need for new institutions to assist the renewed commercial expansion of the 1850s and 1860s.<sup>28</sup> By 1858 there were only five in Australia, two in Canada, and none in southern Africa.<sup>29</sup> There were several reasons for this. Especially in areas of white settlement, entrepreneurs were often hostile to banks coming from outside, sensing danger in their being strongly influenced by the decisions of remote capitalists in London or elsewhere. Local banks, more responsive to colonial conditions, less guarded perhaps in their attitudes towards credit and acceptable securities, and developing flexible relationships with increasingly representative or popular colonial governments, were widely preferred and multiplied rapidly on the back of locally-generated capital.<sup>30</sup> Equally signifi-

<sup>25</sup> Secondary sources include A.S.J. Baster, *The Imperial Banks* (1929); E.H.D. Arndt, *Banking and Currency Development in South Africa (1652–1927)* (Cape Town, 1928); and S.J. Butlin.

<sup>26</sup> For the regulations of 1846, revising those of 1840, see Pennington, 242–7; Kesner, 147–8; Nelson, 49; Butlin, 259–60; G.R. Hawke, *The Making of New Zealand: An Economic History* (Cambridge, 1985), 60–1. The three Presidency Banks in India: for example, (Bengal established in 1809, Bombay 1840, Madras 1843), were all prohibited from foreign exchange banking after 1839; A. Bagchi, 'Anglo-Indian Banking in British India: From the Paper Pound to the Gold Standard', in A.N. Porter and R.F. Holland (eds.), *Money, Finance and Empire 1790–1960* (1985), 96.

<sup>27</sup> Kesner, 149, 154.

<sup>28</sup> Oriental Bank (1845); Chartered Bank of India Australia and China (1853), Chartered Mercantile Bank of India London and China (1857), Hong Kong and Shanghai Banking Corporation (1864).

<sup>29</sup> H.J. Habbakkuk, 'Free Trade and Commercial Expansion, 1853–1870' in: *Cambridge History of the British Empire* II (Cambridge, 1940; repr. 1968), ch.xx1, 781–3, 785.

<sup>30</sup> Butlin, 258; Hawke, 60–65; *Oxford History of New Zealand*, 67–72.

cant, however, was the level of colonial involvement with overseas trade. Australia's early lead owed much to the growth of wool exports after c.1830 and to the gold discoveries of the early 1850s. The history of the banks' slower growth in South Africa similarly reflects the later development there of export staples in the form of mohair, wool and, after 1868, diamonds. Finally, as further restraints on the spread of imperial joint-stock banking before 1870, there existed both the conservatism and inertia of many merchants in financing their businesses, together with the very limited borrowing undertaken by colonial governments.

This was a banking structure which reflected both the limits of colonial enterprise and the associated restrictions on London's influence over, or role in, colonial financial networks before 1860. However, it was a system steadily undermined thereafter. The integration of metropolitan and peripheral banking proceeded as the winnowing of colonial banks in successive slumps and the amalgamations or takeovers by the overseas banks left the latter in an ever stronger position. In South Africa, for example, the London and South African Bank and the Standard Bank of British South Africa were founded in 1860 and 1862. In Cape Colony they both spread rapidly, the former having 17 branches by 1865. Despite slumps in 1865–68 and 1872–74, there were still 19 separate Cape banks with 57 branches in 1876. However, colonial banks frequently neglected to take advantage of limited liability legislation, and were decimated by further slumps in 1877–79, 1881, 1885–86, and 1890. By 1891 the Standard Bank, having absorbed the London and South African in 1877, dominated the colony alongside just three others, two of them imperial and only one colonial. By 1900 these same three overseas banks catered overwhelmingly for the whole of southern and central Africa.<sup>31</sup> Developments in Australia and New Zealand followed similar paths, with the result that the colonies evolved neither central banks nor officially-held reserves of foreign exchange.

Underlying the change were alterations in the conditions which originally had favoured the colonial banks. Outright failures, fears as to their soundness, and periodically an inability to supply necessary cash or credit, slowly undermined colonials' confidence in purely local financial institutions. The expansion of colonial trade not only left smaller banks unable to find the capital and expertise to match it, but contributed to the growing separation of commercial and financial dealings as the need for multi-lateral payments as well as bi-lateral remittances multiplied.

The historian of the Standard Bank has described the new practices which came to South Africa in the 1880s. 'Improved communications had led to sales of goods for cash which had previously been sold on six months credit, and direct importation was becoming more general, to the detriment of the middleman and the inland bill. Consequently overdrafts were taking the place of discounting. Similarly, produce sent down from the interior to the coast was now frequently sold for cash and paid for by sight draft or telegraphic transfer, instead of by way of bills drawn

<sup>31</sup> Arndt, ch.5; J.A. Henry, *The First Hundred Years of the Standard Bank* (1963). The three were the Standard Bank, the African Banking Corporation (established 1890–1), and the Bank of Africa (1879).

at 60 to 120 days. The result was a dearth of trade bills, a shorter currency for those that were drawn and a further shift in advances from discounts to overdrafts'.<sup>32</sup>

As this quotation shows, advances in technology (notably the telegraph and regular steam shipping) and commercial requirements were likely to have marked consequences for short-term financial management; these too could affect London's financial links with the colonies. The efforts of imperial and colonial governments to secure monetization of colonial economies and stable exchanges, like the development of foreign exchange banking facilities, always had as their inescapable counterpoint the evolving operations of private overseas commerce. In these operations, throughout the period 1815–1914, London played a very significant role as a provider of mercantile credit, transfers and exchange, and served far more than the City interest. Merchants in Liverpool or Glasgow, either following the habits of their trade, or using local banks who in turn relied on London agents, or looking to the greater stability, reputation and lower rates of many London banks, constantly turned to the metropole for the settling of accounts.<sup>33</sup>

At least until the 1880s merchants in London and provincial UK centres together with their opposite numbers in colonial ports continued to act for each other as corresponding agents. Some larger colonial firms established resident agents or partners in London. All dealt with the supply, financing and shipping of often highly miscellaneous selections of imports and exports. From the 1880s onwards, however, improved shipping services and the expansion of colonial business encouraged increased specialization among commercial firms, and easier contact between producers or manufacturers and their overseas suppliers or customers. The growing practice of direct importation, especially by larger purchasers, tended to exclude mercantile intermediaries.<sup>34</sup> In these circumstances it would appear that the role of joint-stock banks as the handlers of trading accounts everywhere grew rapidly after 1890. The consequences of this for London's financial networks are still unclear.

At a different level in the market-place, a parallel transformation can be seen in the role of London's 'merchant banks' as institutions oiling Britain's commercial wheels. They comprised an extraordinarily cosmopolitan collection of private partnerships, which had extensive international contacts and combined commercial finance with specialised commodity trading. Their numbers grew rapidly after 1815 and again after 1850, often by the influx of new firms from abroad, in order to cope with the great expansion of international and imperial commerce. For most of them, the merchanting side of their activities gradually declined, giving way to a more exclusively financial role as issuing or acceptance houses, providers of loans and investment advice. Their colonial interests exhibit no clear pattern. Some aspects of colonial enterprise were clearly regarded as too speculative for what were often rather conservative firms. N.M. Rothschild and Sons, for example, did not

<sup>32</sup> Henry, 109.

<sup>33</sup> S.D. Chapman, *The Rise of Merchant Banking* (1984), 8–9, 137 and *passim*.

<sup>34</sup> For South African material, Porter, 'Britain, the Cape Colony, and Natal', 570–1, and *Victorian Shipping*.

develop extra-European interests until the 1880s, and then only in very select South African mining ventures and related activities.<sup>35</sup>

A longer, more continuous line of descent can be found in the 'agency houses' which developed rapidly especially after 1800 to manage a large slice of East India Company business and private trade with India and South-East Asia. Based both in London and Calcutta, they suffered heavily in the commercial crises of 1829–33 and 1847. However, many survived and, although they thereafter largely avoided banking, became firmly rooted in virtually every form of Asian enterprise and investment. Chapman has charted their development in many cases from locally-based merchant houses to the status of 'investment groups', responsible for a great variety of joint-stock subsidiaries essentially independent of London and its capital market. While they mobilised a substantial proportion of the UK's and London's Asian trade, many operated solely within an Asian setting and depended largely on non-metropolitan sources of capital. They drew funds from Australia, Japan, China and India as well as investing their own profits, especially after 1875 as London became less willing to provide for Indian investment.<sup>36</sup>

#### IV

Finally, the growing demand especially from British settlers overseas for the development of colonial resources brought more frequent recourse to London as the most likely source of additional capital, either in the volume required or at relatively favourable rates. This was a phased process, dependent on fluctuations in the UK domestic and international investment markets, the emergence of reliable prospects for development in individual colonies, the initiative of colonial governments or entrepreneurs, and the wish to avoid self-defeating inter-colonial competition for funds in London. It also altered relationships between the imperial and colonial governments, banks of all kinds and the stock market.

Between 1815 and 1870 London's organised stock market devoted much of its attention to government loans. Colonial borrowing in the City was also essentially that of governments, and this remained overwhelmingly so throughout the period to 1914. In 1870, for example, 68% or £21.8 million of British investment in Aus-

<sup>35</sup> Chapman, *Merchant Banking*, 22–3; *ibid.*, 'Rhodes and the City of London; Another view of Imperialism', *Historical Journal* 28,3 (1985), 647–666; R.V. Turrell and J.-J. Van Helden, 'The Rothschilds, the Exploration Company and Mining Finance', *Business History* xxviii, 2 (1986), 181–205; R.V. Turrell, 'Finance, the Governor of the Imperial Engine: Hobson and the case of Rothschild and Rhodes', *Journal of South African Studies* 13,3 (1987), 417–32; Colin Newbury, *The Diamond Ring: Business, Politics, and Precious Stones in South Africa, 1867–1947* (Oxford, 1989); Porter, *Victorian Shipping*, 146, 148, 150–1.

<sup>36</sup> S.D. Chapman, 'British-based Investment Groups before 1914', *EcHR* xxxviii, 2 (1985), 230–51; *ibid.*, 'Investment groups in India and South Africa', *EcHR* xli, 2 (1987), 275–80; Chapman, *Merchant Banking*, esp. 140–44; Chapman, *Merchant Enterprise*; Philips, *East India Company*; Amales Tripathi, *Trade and Finance in the Bengal Presidency 1793–1833* (Calcutta, revised ed., 1979); R.P.T. Davenport-Hines and Geoffrey Jones (eds.), *British Business in Asia since 1860* (Cambridge, 1989); Munro, 'Scottish Overseas Enterprise'.

tralia was in the stock of colonial governments; by 1914 this had multiplied almost ten-fold to £ 216.5 million, or 72.2%.<sup>37</sup> Individual colonies were particularly active in the market at different times: Australia in the early 1850s and 1880s, New Zealand in the 1870s, South Africa in the 1890s, and Canada in the 1860s and again after 1903. By far the greater part of these rapidly increasing sums were devoted to providing the infrastructure for economic development, especially to railway building. In 1888, for instance, of the Cape Colony's outstanding public debt totalling £ 22.3 million, only £ 1 million had been raised locally and railways accounted for some £ 14 million.<sup>38</sup>

In raising loans, colonial governments were at first required to rely on the Crown Agents for the Colonies to handle their official transactions in London. All Crown Colonies continued to be restricted in this way. However, afraid lest it be held responsible for mounting colonial liabilities, the imperial government after 1880 refused to allow the spendthrift self-governing colonies to use the Agents' services.<sup>39</sup> This move was welcomed by colonists often glad to escape the Crown Agents' cosy network involving selected brokers and merchant banks like Baring. The self-governing colonies appointed their own agents-general in London, and passed their issuing business there to banks of their choice.

A preference gradually emerged for the imperial or anglo-colonial overseas banks. Australia's colonial banks were slowly abandoned by their governments, leaving only South Australia by 1914 using a local bank; similarly, the Cape government accepted its Agent-General's advice against relying even on the Standard Bank. Favoured choices were the Bank of England and the London and Westminster Bank, but there developed no narrow City-centred monopoly, even if issues continued to be made in London. Scottish banks were sometimes used, and in 1891 Canada left Baring and Glyn Mills for the Bank of Montreal.<sup>40</sup> Periodically colonial governments chafed under what they felt were the restrictive practices of London bankers, but attempts to move elsewhere seem to have been both rare and unsuccessful.<sup>41</sup> The key to such choices lay above all in colonial estimates of the prestige of the issuing bank and hence the security of the investment in the opinion of the investing public.

The financial position of Crown Colony governments was generally much weaker than that of self-governing colonies. Where prospects seemed limited and colonial officials constantly struggled to balance the books, the imperial government rarely felt able to do more than trust to private initiatives and the 'natural'

<sup>37</sup> A.R. Hall, *The London Capital Market and Australia 1870–1914* (Canberra, 1963), 90, 205–6.

<sup>38</sup> Andrew Porter, 'Britain, the Cape Colony, and Natal, 1870–1914: Capital, Shipping, and the Imperial Connection', *EcHR* xxxiv,4 (1981), 557.

<sup>39</sup> Kesner, 'The Builders of Empire; The Role of the Crown Agents in Imperial Development, 1880–1914', *JICH* v, 3 (1977), 310–30; Porter, 'Britain, the Cape Colony, and Natal', 558–61.

<sup>40</sup> At the Bank of England: New South Wales (1884–1905), Queensland (1885); at the London and Westminster: Victoria (1886), Western Australia (1890), NSW (1905), South Australia (c. 1885), Cape Colony (1883). Hall, 73–4, 103–5; *Cambridge History of the British Empire* vi, 375; Porter, 'Britain, the Cape Colony, and Natal', 564.

<sup>41</sup> *Ibid.*, 562 n.37, for New Zealand and Queensland in 1884, and 565 n.69, for the Cape in 1891; Hall, 105, for Australian states in the early 1900s; in 1890–1, Canada seems to have approached Paris.

growth of external trade. However, steps both direct and indirect were taken by Joseph Chamberlain between 1895 and 1903 to improve their chances on the London capital market.<sup>42</sup>

Just as colonial governments of all kinds came more frequently to London and its Stock Exchange in the late-nineteenth century, so did private entrepreneurs wishing to promote joint-stock companies with colonial interests. However, their use of London's facilities was by no means synonymous with either London's initiative or London's control. Payment of colonial pipers did not necessarily produce performances of the City's tunes.

It is important to remember that much of the capital for local colonial ventures was raised in the colonies themselves.<sup>43</sup> This is no less true in the late-nineteenth century than in the 1820s. In the case of New Zealand, Hawke has stressed how 'capital formation after 1870 was mostly effected by local savings'; he interprets the function of 'overseas borrowing ... as a kind of transmission mechanism', simply making possible the periodic concentration of accumulation and development rather than its general diffusion. 'British capitalists did not control New Zealand resources and activities; rather, their cooperation and finance were needed if resources were to be developed and activities to proceed in the ways the colonists wanted'.<sup>44</sup>

Australian land-mortgage companies in the late 1870s/early '80s were largely floated locally. Moreover, 'it was unusual for the best Australian mines to be offered in London. Most ... could only be bought in the first instance by purchases on the Australian Stock Exchanges – a process which was facilitated in the early nineties by the movement to London of a small group of Australian brokers'.<sup>45</sup> Even in Britain, fund-raising was not confined to London and the south-east. Along with other companies, colonial banks and building societies operating in the UK advertised and attracted deposits from many areas, not least Scotland. Colonial growth and development in its turn made further local savings possible. In the early 1890s and again after the South African War, Australian governments turned away from London to local issues, with the result that the proportion of their public debt floated at home rose from 17.4 to 30.6% between 1904 and 1913.<sup>46</sup> The ability of local colonial interests to decide the timing, to set the terms, and to reap the benefit of metropolitan investment was paralleled by the expansion of locally-generated savings and investment.

Recent work has also tended to circumscribe the role of London in the nineteenth-century movement of capital abroad. Whereas much of the capital provided between 1850 and 1880 may have been British in origin, it is now suggested that substantial proportions of the stock issued and quoted on the London Stock Ex-

<sup>42</sup> Kesner, *Economic Control*, ch.3 for the Colonial Loans Act (1899) and the Colonial Stock Act (1900), and *passim*.

<sup>43</sup> Donald Denoon, *Settler Capitalism. The Dynamics of Dependent Development in the Southern Hemisphere* (Oxford, 1983).

<sup>44</sup> Hawke, 71, 7–8.

<sup>45</sup> Hall, 109–110, 113.

<sup>46</sup> *Ibid.*, 116–19, 137.

change especially between 1875 and 1914 was bought by foreigners. Platt has argued strongly that British purchases abroad did not necessarily compensate for this, and that securities originally bought by British residents were also frequently sold to foreigners. London thus often acted much less as the provider of capital than as a channel for the investment funds of others, just as its financial and commercial institutions encouraged the holding in the metropole of sterling balances by many different governments, firms and individuals.<sup>47</sup>

Just as estimates of the total British capital invested overseas are being lowered, so the extent of London's initiative and direction in enterprise overseas, not least within the empire, has been questioned. Not only work on 'investment groups' referred to above, but the rediscovery of the 'free-standing company' – ventures floated, often by expatriates, with capital raised in the United Kingdom, for operations conducted entirely overseas – and current research into particular sectors such as international mining, accentuate the role in business promotion and management of Britain's own provinces and the imperial periphery.<sup>48</sup>

## V

In characterizing the financial web which bound London to Britain's empire it is above all necessary to emphasize the way in which London's machinery facilitated colonial developments by bringing together skills, knowledge, resources and many diverse needs, including those which were financial. This appears to constitute a very different kind of relationship from that contended for by some historians in which the City of London and the south-east of England are themselves represented as the chief providers and source of initiative, generating imperial enterprise just as they guided the pattern of imperial expansion. It is one which not only points to the heterogeneity of the City itself, but finds a place for the autonomy and independence from London of other regions within the UK, of colonial territories themselves, and of other European states which after 1870 also had plenty of funds to invest overseas.

Chronologically the 'dominance' of London as the empire's financial centre was also limited. Because the rhythms of currency reform, banking, the evolution of business structures and capital provision were far from uniform, generalisations are exceptionally difficult. However, it can be argued that London reached its apogee between 1860 and 1890, when colonial borrowing and returns on colonial investments attained historically high levels, when colonial banks were failing in sig-

<sup>47</sup> D.C.M. Platt, 'British Portfolio Investment Overseas before 1870; Some Doubts', *EcHR* xxxiii, 1 (1980), 1–16; and *British Investment Overseas on the Eve of the First World War*; for London 'as a funnel through which other people's money was poured, rather than as a stirrup-pump spraying domestically-generated savings over the rest of the world', see B.R. Tomlinson, 'The Contraction of England: National Decline and Loss of Empire', *JICH* xi,1 (1982), 58–72, at 63–4.

<sup>48</sup> Mira Wilkins, 'The free-standing company, 1870–1914: an important type of British foreign direct investment', *EcHR* xli, 2 (1988), 259–82; Charles Harvey and Jon Press, 'The City and International Mining, 1870–1914', *Business History* 32,3 (1990), 98–119.

nificant numbers, while commodity trades and mercantile finance were still very strongly tied, and currency reform had reached a plateau. Thereafter, London's financial position became less secure, and was then permanently damaged by the 1914–18 war. The growth of American and European competition, colonial economic growth, the increasing specialization and diversification of business and commerce, and the multiplying sources of capital for colonial investment, all offset the centrality of London in imperial finance which is often associated with the gold standard and capital exports from the United Kingdom.