

BRITISH CHARTERED BANKING: CLIMAX IN THE EAST

An Inaugural Lecture

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BRITISH CHARTERED BANKING: CLIMAX IN THE EAST

AN INAUGURAL LECTURE

delivered on May 21, 1969

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title of my lecture has, I regret to say, caused bewilderment among my colleagues. 'British Chartered Banking: Climax in the East!' This sounds potentially exciting . . . or at least interesting . . . and yet I am known, in some circles at least, as an economist. We have here an apparent contradiction. And yet economics—or at any rate economic history—can be made exciting. Let me give you an example:

[The accountant, Mr. C. R.] Rice had the courage to re-enter the building, as he heard cries for help from one of his colleagues, A. J. Morrison, whom he found pinned down by a block of stone, which had fractured his leg. With the aid of two other members of the staff, Morrison was freed and taken off in a handcart. The city was in flames. The jetty, by which ships were lying, had collapsed into the water. A furious storm was blowing. It was impossible to get out of the inferno except by boarding one of the ships.

Or this from another source:

Raffles died of a coronary thrombosis at the age of forty-five. Zoologist, botanist, historian, linguist, imaginative and benevolent administrator, he lived long enough to know that his 'political child' as he called Singapore, was sure of a triumphant future. His bust stands appropriately in the lion-house of the Gardens of the Zoological Society, of which he was the prime founder and first president.

Some of you, unfamiliar with works of economic history, may wonder the relevance of these extracts to the topic of my lecture. But, these passages are taken from the histories of two of our leading banks—the Hongkong and Shanghai Banking Corporation and the Chartered Bank respectively.

I do not think I have been unfair either to Mr. Collis or to Sir Compton Mackenzie in my selection. I am certain, indeed, that they would applaud my choice. No nasty talk of money here, just fine description and dramatic moments in the best fictional style of these well-known writers. And the bankers, too, are satisfied. Although the community may depend for its economic life on the intellectual acumen of its bankers, these gentlemen are often very modest of their rôle and like to think of themselves, from time to time, as human beings.

The dilemma of the banker desiring to project a human corporate image through a history is perhaps illustrated by a recent and very bad book about the International Bank for Reconstruction and Development, or World Bank, entitled *The Road to Huddersfield* and written by James Morris, a professional writer whose word pictures of Oxford and Venice had made his reputation. Due to the limited baggage allowance granted professors by the University, I had to select which of my books to bring to Hong Kong, and you are therefore spared an extract from *The Road*, but the key to Morris' problem is contained in the explanation that the author had been challenged by the Bank's President to write an 'interesting' history about a bank.

But how is this to be done? How do you make a bank history interesting? Simply and obviously by not writing about a bank. Write the history of the Far East, tell stories about famous figures who walked past the entrance of the Bank, illustrate from the Bank's collection of originals—exciting indeed if you are dealing with the Chase Manhattan. To be fair, if you are a literary figure charged with so impossible a task as writing a bank history, what else can you do?

Some two years ago I argued this point with Mr. John Swire, whose prompt response was that a history of

Butterfield and Swire had been undertaken by two economic historians. And he added, 'It's quite boring. You'll enjoy it.' But what more could one ask of an economic history? Might I not say, paraphrasing Hamlet: 'For the history, I remember, pleased not the million; 'twas caviare to the general: but it was—as I received it, and others, whose judgements in such matters cried in the top of mine—an excellent history, well digested in the chapters, set down with as much modesty as cunning?' Those of you familiar with Marriner and Hyde's *The Senior John Samuel Swire 1825-98; Management in Far Eastern Shipping Trades* know already that the book is, of course, far from boring and is a reasonably balanced account of a man and his commercial life and that of the firm he founded. The work suffers, however, from another and less easily remedied defect of business and banking histories of this type, namely that it draws too heavily on a single archive and is not sufficiently integrated into the general history of its time. If a crisis in Australia bewildered the Senior Swire, the authors leave it to bewilder the reader; the reader is rarely given a wider perspective than that available to the characters of the drama.

The uni-archival approach is rarely acceptable or justifiable. Research facilities—everything from co-operative microform projects to generous research grants—now make it possible for the historian to consult his diverse sources, and in such subjects as diplomatic history the need for multi-archival research has long been accepted. Not so, apparently in business and banking history. Let me give an example. In the 1860's Jardines and Russell and Co. found their foreign shipping competition on the Yangtze somehow disappearing; the author provides no explanation. But a check of the Hong Kong newspapers and of relevant business journals in London would reveal that the firms operating the competing ships had failed for reasons unconnected with their Yangtze operations and not, as the reader is left to suppose, through the competitive genius of the big two.

The uni-archival and literary approaches to banking history persist, I suggest, because bankers face particular problems and are, in any case, not certain what they want. Some in the bank may not even be interested in publishing a history at all; it smacks of indiscretion.

I appreciate that there is some considerable basis for this attitude. Banks deal in a confidential relationship with their customers, and this obligation is not always lessened by the passage of time—some business men tend to be embarrassed by activities of enterprising founders who lived by other standards and in another age. (By analogy what will our descendants say of us who sell the means to lung cancer?) And yet, as I hope to show, a meaningful economic history of a bank can be written without scandalous revelations.

Once having decided to commission a history, the Bank management faces the problem of content. This may seem obvious: a history is a history—tell the story. Unfortunately there are problems. A bank is, after all, many things. It may have a staff cricket team which in 1897 were champions of the China-coast inter-port

league. It may have pioneered the provision of hot meals to clerks. It may have counselled kings; there may be some half-forgotten tales which are resurrected and sent to the bank historian for incorporation in the history. The pressures to include at least some part of all this in a bank or business history—together with a minute description of controversies surrounding each building programme—are apparently overwhelming. In consequence we tend to have a little architectural criticism, some fascinating though often irrelevant historical commentary, a few character sketches and anecdotes—in fact, something for everyone, except perhaps for the economic historian.

And just to show I'm not immune to such things myself, I have what passes for an anecdote in banking circles. During my all too brief 'fellowship in business' with the First National City Bank of New York I was taken to meet top executives at the morning session where, if I have it right, the nation's business hangs in the balance. When however it was revealed that I was an economic historian interested in banking in China, one executive vice-president stopped in the middle of a multi-million dollar transaction to reminisce on old International Banking Corporation days in Shanghai. (The FNCB was still known as the International Banking Corporation in the East as it is today in Hong Kong.) One anecdote which can be repeated before a scholarly audience ran something as follows: In the early 1930's many foreign banks issued banknotes in Shanghai payable in silver on demand. Executives of the IBC spent the week gleefully accumulating banknotes of the Hongkong and Shanghai Bank to several hundred thousand, presenting them minutes before closing time on Saturday and demanding silver in payment. When this could not be produced in the time remaining, the victorious IBC manager would offer to lend the sum required over the weekend at a very high rate of interest. The Hongkong Bank had no alternative but to accept. Next week, if all is to be believed, the Hongkong Bank did the same to the IBC. Even bankers can be playful.

Histories of banks—and, indeed, of other businesses—too often fail because the author is trying to be 'interesting' or because he lacks a context of significance and allows his story to degenerate into a 'parish history' with lists of branch managers and other minutiae or into a collection of anecdotes. These failings are not unrelated. The writing of history has developed in many fields, and I very much regret that it should be so lamentably backward in so significant an area. For banks, with their rôle in local finance set against a world context, could provide just those links which would make so much else intelligible.

That the 1866-68 Hong Kong mint was unsuccessful we know, and doubtless the personal problems of the Master of the Mint and his associates are relevant. But so also are the changes in the exchange rate, the warnings from the Mint in London on the problems of attracting bullion, the position of silver mining in California and Nevada, the Australian balance of trade, the absorptive capacity of India, the financial crises in London and

Bombay, the silk market in the Lower Yangtze and Shanghai areas, the demand for tea, the British Treasury policy towards colonial banks of issue—and, please notice, all these problems touch on the activities of banks. Questions of this level and scope should be, then, the essential elements of a useful bank history. Some anecdotes may still be included, lists of managers can be appended, but the basis must surely be the bank in its economic rôle and setting, and its true story told in this context. Only against such a backdrop can we judge the decisions of management, evaluate the rôle the bank played in developing industry, in encouraging or preventing speculation, in safeguarding savings, in advising government, or in providing sound financial links with world money markets.

If such a history is to be written, it is unlikely that any but an economist can attempt it, but, as the task is complex and requiring of specialized knowledge, there is no assurance he will succeed. Commenting on an external examiner's report that economic history in this University ought to be taught in the history department, Cambridge's Joan Robinson said bluntly, 'Which department is irrelevant; but economic history must be taught by an economist.' Similarly in the writing of bank histories, whether the author is commissioned, or an employee or writing independently is irrelevant; but he must be an economist. The banker knows too much; the historian understands too little; the literary figure descends to the level of paid hack or irrelevant romancer. But the economist can place the bank in its proper context and pose questions subject to analysis with the tools of economics. The product may not be a great literary adventure, but it may be economic history, and to those who are interested in economic history, the resulting work may even be what all bankers seem so much to want, that is—if I may repeat that deadly and meaningless word—'interesting'.

One of the purposes of an inaugural lecture is to provide the new professor with an opportunity to make *ex cathedra* pronouncements, usually about the direction his department is likely to take over the next few years. But the chair of economic history in this university is a personal chair, which, I must explain for the benefit of my fellow-countrymen, is designed to provide prestige without authority and to permit people to call you, among other things, 'professor'. The University has indeed given me certain authority, but that entirely in my rôle as Director of the Centre of Asian Studies—and consideration of that institution, very close to my heart, I should like to leave aside for this afternoon. Therefore, any projection of activities in the field of economic history which I make must be understood in the context of this personal chair. Several of my colleagues are, of course, involved in economic history, and, both as Centre Director and Professor, I certainly hope to encourage and work with projects long underway for a commercial history of Hong Kong and related topics.

I shall speak briefly, therefore, of my own research plans. I have studied mainly in the field of monetary and development economics, almost entirely with reference

to the Far East. More recently I have been concerned with a broader range of subjects which I might describe generally under the heading 'The East in the World Monetary System'. This is a field so vast that it could well provide the context for many separate monographs over many years, hopefully in collaboration with others having related interests. At the 1969 annual meeting of the Association of Asian Studies, for example, I chaired a panel with papers illustrating the potential of such an approach to the economic history of the region—and my hope is that these papers will shortly be published by our Centre of Asian Studies. My colleague, Dr. W. E. Cheong, spoke on changes in the methods of financing the China trade caused by English monetary crises. Professor William J. Barber examined the impact of classical economic theory on the Indian currency system during the period of East India Company rule. Professor R. T. Stillson showed how the form of Meiji financial institutions was at least partially shaped by world monetary factors, and I spoke on British colonial monetary policy and its impact on the currency systems of the region. These diverse topics were held together by recognition that local monetary and financial organization operates in a certain theoretical and real context which was in large part determined either by specific decisions taken elsewhere or by impersonal forces of a market made world-wide through a monetary system linking and shaping economic events even in the nineteenth-century East. Further, this international system and these specific decisions reflected (a) the state of economic thought in Europe, especially Britain, (b) the particular banking practices of the time, (c) the legal systems of England, France, Scotland, and (d) the nature of the colonial political links.

My own particular focus has been the study of the impact of British banking practice—both English and Scottish—on British Eastern banking. This impact was transmitted in at least three major and rather obvious ways: first, through personnel—and here we notice particularly the attempt to follow Scottish practices; secondly, through the colonial governments acting within an area of legislation reserved to the Secretary of State; and thirdly, through the impersonal factors of a monetary system and an imperial and international banking system the last geographical links of which were closed certainly by the mid-1860's.

Given this broad field there are many ways of approaching the subject. I have chosen to deal first with the development of British chartered banking in its formative period, say from 1830 to 1870, and this should include a study of the history of several banks in a specific economic context against which their rôle can be assessed. I have already published a preliminary chapter on this topic in my *Concise Economic History of Modern China* and an ambiguously titled article, 'The Bank of China is Dead', in the Centre's *Journal of Oriental Studies*.

In my introductory remarks this afternoon I was guilty of negative thinking about bank histories. In the time that remains I shall be more constructive, at the same

time exposing myself to possible criticism, for I intend to illustrate the type of banking history I as an economic historian would prefer to see written. While I may not succeed entirely, I should at least succeed in not being 'interesting'. I shall lecture on the founding of the Hongkong and Shanghai Banking Corporation, a subject, obviously of local interest, which may give rise to two objections. The first is simply that a history of the Bank's founding has recently been written. But aside from the historiographical reasons I have advanced for being dissatisfied with this effort, I must add that the relevant chapter of Maurice Collis' work contains at least 25 factual errors, some important and some unimportant; but all errors. While I do not intend to correct them now, I do suggest that the definitive history is yet to be written. But more important, given the title of my lecture, is a possible second objection: In what sense is the Hongkong Bank a chartered bank, and in what sense does its founding provide a climax?

By British chartered banking in this context I refer to overseas banks whose Crown charters conformed to the Colonial Banking Regulations. The chartered banking system was intended to permit overseas joint-stock banking with note issue and limited liability at a time when the establishment of such banks in Britain was not permitted. The charters were granted by the Crown on the advice of the Lords Commissioners of the Treasury and served the purpose of giving rights to the proprietors to operate throughout the Empire and wherever else they might be permitted by the laws of the land; in practice the chartered banks with which I am concerned were restricted to operations east of the Cape of Good Hope, usually excluded rights to operate without restriction in India, saved the rights of the various colonial governments to impose restrictions on chartered bank note-issues, and limited operations outside the Empire to places where British consuls were assigned.

The Hongkong and Shanghai Banking Corporation was, on the contrary, authorized by an ordinance of the Government of Hong Kong with the approval of the Secretary of State for the Colonies. It has never been claimed that this ordinance was in some way an imperial charter. But here the different interests of the lawyer and the economic historian become apparent. In fact, the Hongkong Bank ordinance was, in common with the banking charters, based firmly on the provisions of the colonial banking regulations. Indeed the ordinance was an almost *verbatim* copy of the charter of the Asiatic Banking Corporation, granted in 1864, the year the Hongkong Bank's promoters first met. Furthermore in obtaining permission for incorporation by a Hong Kong ordinance, the Hongkong Bank promoters went through procedures almost identical to those necessary to obtain an imperial charter, and it was in the British Treasury that the provisions of the Hong Kong ordinance were decided and from which the final decision to sanction the ordinance was actually made. The Hongkong Bank's charter took the form of a colonial government ordinance rather than imperial charter simply because the head office and the court of directors were to be in Hong

Kong and not in London. Thus to the economic historian, the Hongkong Bank appears in the tradition of Eastern chartered banking and must be considered in this context.

But why should the founding of the Hongkong Bank be considered in some sense a 'climax'?—or at least as the climax of chartered banking in the East? I hope that none suppose me unwise enough to be passing judgement on the relative merits of presently existing banks. I should want to undertake a different analytical approach and be located some considerable distance from here before I spoke to such a subject. No, rather I use 'climax' not as a value judgement, but to mark the end of an historical period. The Hongkong Bank was the last bank to be, in the sense defined above, 'chartered'.

In terms of my broader project the years 1864 to 1866, which witnessed the founding of the Hongkong Bank, were also ones of crisis which tested the whole structure of exchange banking and the Eastern trade. The uncertainties of the cotton market following the end of America's civil war, the growth of company promotion and the activities of Britain's Credit Mobilier, the boom in Bombay shares in Bombay and the generally speculative mood there—all to be followed by collapse and the Overend Gurney crisis in the Spring of 1866 lend to these two years other characteristics of 'climax'. From the ruins the Hongkong Bank emerges as a symbol of a new banking era—possibly because its management was able, more probably because it had not commenced operations sufficiently early to get into trouble. With a reassessment of the financial structure and the dangers of limited liability—there were to be found even greater dangers in unlimited liability—came also a rethinking on the matter of imperial charters and the general incorporation of banking companies. A history of the founding of the Hongkong Bank should, eventually, encompass all this: this afternoon our task is a more modest one.

The fact is that by 1864–66 certain developments had made chartered banking less attractive to new bank promoters, since the special benefits were increasingly limited and the process of obtaining a charter was subject to delay—especially in 1865 when the Treasury's expert on this problem, the able George Arbuthnot, died with his minutes pending. At the same time the Imperial government began to show a new reluctance to grant 'special privileges' when, it was asserted, adequate general legislation existed. Let me be more specific. Although the colonial banking regulations were modified from time to time, reflecting both changes in banking theory in Britain and the changing organization and control concepts of the British Empire, general domestic legislation was also developing. In 1858 parliament permitted limited liability, joint stock banking, but with note-issuing prohibitions for new banks. Secondly, the Indian Government had become increasingly anxious to control banking in India, and in 1865 they successfully asserted their right to prevent agencies being established by newly chartered banks through the automatic provisions of an imperial charter. Thirdly, Australia and

other colonies had various banking enactments and currency regulations which impinged legally on the rights conditionally granted by charter.

Wherever the balance of advantages lay between general incorporation or charter for overseas banks with headquarters in London, the situation in Hong Kong still favoured—for reasons we shall examine later—the charter or an equivalent special act of the local legislature. Thus it is that the ordinance granted the Hongkong and Shanghai Bank in 1866 was the last to follow the traditions and provisions of the colonial banking regulations. The last chartered bank in the East forced also the last changes in the regulations, for the Hongkong Bank was also the first to be both 'chartered' with headquarters overseas and intended for more than local operation. The local bank was in one sense the last of a system; in another a wholly unique institution which, although uncertain of the direction it should take initially, was so constituted with powers to establish on the China-coast and, with local direction, to develop as business and banking practice required. In this sense, therefore, was the founding of the Hongkong and Shanghai Banking Corporation a 'climax in the East'.

Before considering further the founding of the Bank in an economic context, I should review briefly the timetable of events. In 1858 the Treaty of Tientsin opened the Yangtze to foreign trade and thus gave easier access to a 'vast fertile region, inhabited by three hundred millions of intelligent people who carry on an enormous internal trade by means of native joint stock and private banks of issue and who have an extensive and increasing commercial intercourse with Europe, India, America and Australia [presenting] a lucrative field for monetary operations'—I quote from the prospectus of the Imperial Bank of China, Ltd., a project of Hong Kong's sometime Treasurer, R. Montgomery Martin, writing in the florid style of the day. While the Imperial Bank of China never became operational, merchants based on Bombay were quick to see the potentials, and several banking ventures on the China coast were soon in operation. But when a Bank of China was formed in Bombay in the early summer of 1864 with the express intention of establishing a head office in Hong Kong, our local merchant community was eventually aroused to co-operative action.

News of the Bank of China probably arrived in Hong Kong on July 22; the first meeting of the provisional committee of the Hongkong Bank was August 4th. The committee met regularly throughout the Fall and were successful in preventing the Bank of China from obtaining any local support. Rejecting the idea of merger, the committee sent the colonial secretary of Hong Kong an application requesting that the Governor 'confer on this bank the privilege of a charter or Act of Incorporation'. In transmitting the application to London, the Governor, Sir Hercules Robinson, noted that the bank's provisional committee had expressed themselves willing to abide by the Colonial Regulations, with certain specified modifications. In the event of approval by London, the Governor had to request that he be sent copies of other approved

charters for guidance, and the promoters themselves had declared they were not fully aware of the content of the relevant colonial regulations!

At this point the committee made a wise decision. Possibly realizing the time it might take to obtain the charter or act of incorporation, and probably not realizing the nature of the control exerted by the Imperial Treasury, they made ready to open for business without a charter. A Frenchman, Victor Kresser, significantly an exchange banker, was appointed first manager from January 1865; the deed of settlement was signed, it was later reported, by January 31; and the Bank opened for business in March.

Meanwhile the Bank's legal position was developing in two contrary directions. The promoters of the Bank were successfully pressing in the Legislative Council of Hong Kong for a companies ordinance which would include banks, and thus the Hongkong bank began business as the 'Hongkong and Shanghai Banking Company, Limited' and was registered under the Hong Kong Companies Ordinance. In London, however, the Treasury had approved the Bank's incorporation by special ordinance, and sent the Governor the Asiatic Bank Corporation charter as a model. On learning of developments in the Colony, the Treasury threatened to disallow Hong Kong's companies ordinance unless banks were excluded, insisting that banks should be either separately incorporated or incorporated under the terms of a general banking ordinance with special provisions. (The main contention was single or double limited liability—we shall consider the problem later.) Thus from January 1866, when the Companies Ordinance was amended to exclude banks, until December 1866, when the terms of a special Hongkong and Shanghai Bank ordinance (passed by the local legislature in August 1866) were complied with, the Hongkong Bank operated without limited liability. To complete the story, we should note that the Treasury for a time refused to sanction the 1866 Hongkong Bank ordinance, insisting that certain amendments, including the elimination of automatic rights in India, should be made. The Treasury were persuaded, however, to allow the ordinance to stand, and the required changes were made by executing a revised deed of settlement. Upon receipt of this document, the Treasury finally reported in favour of the ordinance in October 1867.

The legal proceedings surrounding the founding of the local bank took over three years, during most of which time the Bank had actually been in operation and was widely and generally considered a 'success'. (Its rival, Bombay's Bank of China, never became operational and had been wound up the year previously.) The position which the Hongkong Bank has subsequently attained may lull us into supposing that its initial success was some sort of historical inevitability. There are however more satisfactory explanations. In the first place the Treasury was dealing throughout with an operating company, and one which, within the limited scope of those operations, commanded considerable confidence. Any move to undermine this confidence might have led

to serious financial losses by private citizens participating in or with a legitimate enterprise. The Treasury acted throughout with this in mind, and there is no place where the records indicate any official thought but that the Bank would eventually be satisfactorily chartered or incorporated. Thus the 'delays' had no significant effect on the development of the bank. In the second place local management meant not only immediate action but also flexibility, and this was very necessary as founding firms failed, original concepts proved unsuitable, and international crises tested the financial acumen of manager and agents and the confidence of constituents.

We are now at the dividing point between parochial and economic history. We can either describe the Bank's first office building and list the staff or we can consider certain questions of wider significance, both economic and, possibly, political. I have of course chosen the latter course, but even then some selection from the possible range of topics is necessary for an afternoon lecture. I shall deal with issues arising from the problems of imperial banking control on the one hand and from the declared intentions of the Bank's promoters on the other.

Those familiar with the government of China under the Ch'ing will recall that there exist, in such collections as the *Ta-Ch'ing hui-tien* 大清會典 (The collected statutes of the Ch'ing dynasty), detailed regulations for, as William F. Mayers put it, 'every conceivable act of administration', and he added significantly, 'the principal function of the central government consists in watching over the execution of this system of rules.' Thus there existed regulations defining the size of cash coins or fixing mint quotas, but local governors from time to time petitioned successfully to have these regulations modified as local conditions required. Throughout the Ch'ing there is a conflict of principle between the idea of imperial uniformity and local necessity. Certainly not all lapses from the regulations can be so explained; political power played some rôle, at times possibly the dominant rôle. But I am concerned to show that even when the system was working as intended, this conflict existed.

The parallel with the British imperial system should be apparent. Uniformity is seen in the imperial instructions which forced the pound, shilling, and penny as units of account for dollar-using Hong Kong. In banking we should study the abortive attempts of R. Montgomery Martin and others, including for a time William Jardine, to found an imperial bank, of which the 1842 Bank of Asia is an example. But grandiose schemes of imperial financial and monetary unity were unsuccessful; uniformity had to bow to practicality. Acting as would any capable viceroy, Sir John Bowring, governor of Hong Kong, 1854-59, petitioned the imperial authority that the dollar become Hong Kong's unit of account in law as well as practice. There was eventual success during Sir Hercules Robinson's governorship. The general banking concept gave place, in turn, to the chartered exchange banks under colonial regulations, which, like those of the Ch'ing, created a presumption of uniformity

on the basis of a universal principle. But this did not preclude approval for deviations or amendments when time and local events proved these necessary.

When the Colonial Office transmitted the Hongkong Bank promoters' application to the Treasury, this significant minute was added: 'The profits of issue are involved.' The note issue was a matter closely watched and supervised by the Centre, by London. Limited liability was another. These two questions were not unrelated.

A banknote in the hands of the non-banking public represents an interest-free loan to a bank; banks, other things being equal, naturally sought the right to issue such notes. The public, aware that the ultimate legal tender was silver and that the banknotes were but the promises of non-government corporations, would grant the bank the loan, i.e. accept the banknote, only under certain conditions, liable to sudden change. The government, aware of the possibility of panic if a large proportion of the circulating medium were the paper issue of non-government financial institutions, had always sought to control either the issue itself, or the institutions responsible for the issue, or both. In the British tradition, coinage and the profits therefrom were prerogatives of the Crown, not lightly to be given up. The Colonial banking regulations, therefore, provided the privilege of note issue (and limited liability) in return for the promoter's acceptance of certain restrictions on their business activities—restrictions, be it noted, which were designed primarily to insure the soundness of the institution but contributed also to the general confidence with which the chartered bank, and, therefore, its note issue would be regarded by the general public. Important among the regulations was one requiring regular and public reports on the note issue and amounts of specie held. Other regulations controlled the bank's capital and dividend policy and restrained directors from excessive lending to themselves. The bank, of course, received the prestige of a royal charter and the assurance that, after six months operation, its notes would be accepted by the local colonial treasury—at least in those territories where the note-issue had not been pre-empted by the government. Since such treasury acceptance proved in fact to be indispensable if the bank's note issue were to have any significant circulation, promoters considering a note issue essential were forced, even after 1858, to seek an imperial charter.

But banks on the China coast found, as did their Scotch counterparts, that, as a greater proportion of business came to be transacted by cheque, the importance of the note issue as a source of profit diminished. Then, too, since the charters, in a manner similar to but not identical with Scotch practice, required that at least one-third of the note issue and all over a certain limit should be fully covered by specie, thereby tying up funds, the banknote as a source of profit was in fact severely limited. Finally, most colonial governments levied a duty on banknotes 'in circulation'. Nevertheless, whatever the balance of advantage might actually have been, in 1864 the note issue loomed large in the minds of colonial bank

promoters, and the charter or act of incorporation consistent with the colonial regulations was, as I have said, the only way to obtain this privilege.

For this reason alone the Hongkong Bank promoters sought a charter or act of incorporation under the colonial banking regulations. In this they followed the precedent of banks which had been recently chartered in London where incorporation under the 1862 Companies Act would otherwise have been possible. Consistent with this position, the notes of the Bank of Hindustan, Ltd., which did operate in Hong Kong under the British Companies Act, were in 1865 denied acceptance by the Hong Kong Treasury on orders of the Colonial Office. Uniformity was enforced from London—and yet, there was local variation. Opposition to the 1866 Hongkong Bank Ordinance on the Legislative Council led by James Whittall of Jardine Matheson forced through an amendment providing for unlimited liability with respect to the note issue. While this harsh provision was consistent with the terms of British domestic legislation, it was not required by the colonial banking regulations nor was it a provision required for other Eastern chartered banks.

Otherwise the provisions for limited liability, the other matter of imperial concern, were as stated in the colonial banking regulations, that is, the shareholder was liable for the amount he had subscribed and paid up and for an additional amount equal thereto, a regulation to be read with another providing that subscribed capital must be fully paid up within two years.

The whole concept of imperial or overseas chartered banking had rested on the right to limited liability by shareholders of a joint stock bank at a time when there was no such provision at law in England. But after 1858 and especially after 1862 promoters planning an overseas joint stock bank *with headquarters in England* had the choice of charter or general incorporation, both with limited liability, but with the former permitting acceptance of banknotes by the several colonial government treasuries and double liability; the latter, no banknote acceptance but single liability. Similar provisions prevailed in India with regard to limited liability joint-stock banking (but not note-issue), and, therefore, the promoters of the Bank of China dithered about on this subject for sufficient time to endanger their whole scheme.

But once the Hongkong Bank promoters had decided to site their head office in Hong Kong, they had no such choice. There was no way to limited liability in Hong Kong at that time—and hence, incidentally, our gas company was, and still is, registered in London. 1864 was, however, a speculative year and there were already independent moves to obtain a general companies ordinance for the Colony. Jardine's James Whittall, skeptical of the soundness of the local bank project, but even more aware of the danger of speculative company promotion—and the subsequent events in Bombay and London showed his judgement far from unreasonable—led an opposition which reached members of the British parliament. A Companies Ordinance was nevertheless passed in early 1865 with provisions which included limited

liability for banks, and, as we have seen, the Hongkong Bank first registered under it—along with the less successful China Railways Company.

Again the imperial authority moved for uniformity. Having just disallowed a similar British Guiana ordinance which included banks, the Treasury was firm with the Colonial Office. And yet as the Bank's first promoter, Thomas Sutherland, argued, similar restrictions on banks had been removed as early as 1858 in England. This would seem to illustrate a lag in the development of colonial banking legislation, which perhaps reveals that economic theory could be applied in a more pure form in colonial territories lacking British parliamentary representation—partly this, and partly the sense of responsibility for colonial subjects which dictated conservative monetary and banking policies. If pressures of new banking theory had forced change in England, they had not affected the thinking of the Treasury. The Hongkong Bank was deregistered, the ordinance amended, and the colonial banking regulations proceeded with.

Perhaps I should add, almost as an aside, that the whole double-single liability controversy between the Bank promoters, who from the first sought single liability, and the Treasury, who successfully insisted on double liability, was pointless. After all, the general companies legislation held a proprietor liable for his share of the *subscribed* capital, and since the subscribed capital was rarely if ever fully paid up, there was in effect at least double liability on *paid-up* capital—sometimes the liability was proportionately greater. But since the colonial banking regulations required the *subscribed* capital of chartered banks to be fully *paid up* within two years, at least from such a date the liability of chartered bank proprietors was also twice—but never more—the *paid up* capital. It all amounted to the same thing; and this fact apparently dawned eventually on the Hongkong Bank directors who by writing down their subscribed capital achieved for their shareholders under the act of incorporation a liability substantially the same as they had had under the general companies legislation.

Perhaps the initial enthusiasm with which the Hongkong and Shanghai Bank was received can be explained by saying that it was, as its founding, something different to everyone. Certainly one of the possible courses of action envisaged might lead to growth, and local management insured, as it happened, that the right course should in fact be taken. To the P & O agent, Thomas Sutherland, who first received word of the Bombay rival and stirred up Hong Kong's merchants, founding a bank seemed simple enough—at least in the bliss of an after-dinner speech fifty years later. 'But it appeared to me that, if a suitable opportunity occurred, one of the very simplest things in the world would be to start a bank in China more or less founded upon Scottish principles.' The American founder, A. F. Heard of Augustine Heard and Company, wrote to his older brother in Ipswich, Massachusetts: 'The idea is to call up one million of dollars of the capital, to invite current accounts and deposits, and aim at lending money on good security

rather than operating in Exchanges.' The *London and China Express* reported that the bank was to be for local trade financing which India and London based 'exchange' oriented banks could not handle. The Hongkong Bank was to compare with the Presidency or local Australian banks. With the appointment of Victor Kresser as first manager, the *Hongkong Press* claimed that the Bank was not living up to its initial prospectus and had become another 'finance' rather than a 'local' bank.

If we combine these pronouncements with the promises of the prospectus, we find that the Hongkong Bank intended: (i) to finance local trade; (ii) to operate on Scottish principles; (iii) to parallel the position of the Presidency banks of India; and (iv) to assist in the development of a sound monetary system which, it was hoped, would follow the establishment of a Hong Kong mint.

The intention to finance local trade, defined to include the China inter-port trade, was, of course, basic to the whole enterprise. The need for a local institution arose from the growth not only of trade itself, but also from the growth of local ancillary operations, including the development of the treaty-ports as cities of residence and manufacturing enterprise. Experience indicated that the exchange banks with Indian or London headquarters had not been able to maintain control of their overseas managers, and there was, in addition, a shortage of able and experienced persons to fill such positions. To entrust an unspecified modification of traditional activities to such persons was dangerous, and institutions which attempted this too often failed. The only controversy involved in this intended Hongkong Bank activity stems, therefore, from the self-imposed restriction, immediately reversed, that the Hongkong Bank should not engage in exchange operations.

That exchange was not the legitimate function of a bank seems to have been orthodox banking theory in the period shortly before the founding of the Hongkong Bank. The feeling against exchange operations probably arose in part from the peculiar financial position of the Indian government. The abortive Bank of East Asia in the 1830's and the Imperial Bank of China, for example, made much of their proposed abstention from exchange activities. More to the point, the Presidency banks were forbidden to deal in foreign exchanges. The apparent initial determination of the Hongkong Bank to remain free of exchange operations, then, probably stems partly from the traditional attitude and the Presidency bank parallel but also from the fear of the founders that they would prejudice their position with existing banks were they to enter into competition. The traders who formed the provisional committee still required the facilities of the existing banks. Some were even more closely involved. Heard, for example, was agent for the Asiatic Bank, Dent's for the Scinde, Delhi, and Punjaub Bank. Then too commercial houses were engaged in banking operations, including exchange. But experience was quickly to show that the exclusion of exchange operations was an artificial device and impractical. From the first the Bank undertook exchange operations.

The Bank was intended to operate on Scotch principles. This proposition is more difficult of assessment since it depends upon what one considers the essentials of the Scotch as opposed to the English system. Then too Scotch banking practice is at least in part a consequence of the peculiarities of Scotch law; Hong Kong's legal system was essentially English. But perhaps we may accept James Gilbert's statement that Scotch banks: were joint stock, banks of issue, characterized by a branch system, granted interest on current account, and lent on the basis of cash credits. An examination of the Hongkong Bank's balance sheet for December 1866 reveals that with discounts, loans, and credits totalling HK\$4 million, banknotes in circulation were valued at only HK\$700,000 while deposits had reached HK\$3.4 million, suggesting more a traditional English pattern than a Scotch one.

The Scotch banknote issue is, of course, the most obvious distinction between the Scotch and English banking systems. To simplify at the risk of accuracy we might suggest that in Scotland the cost of handling accounts was met through bank pay out by banknotes rather than by cash, while in England the doctrine of compensatory balances was developed, supplemented later by charges for services rendered. Indeed, so important was the note issue, that the Scotch banks were, as we said earlier, able to pay interest on demand deposits.

While it is true that the Hongkong Bank did originally grant interest on demand deposits and did, of course, issue banknotes which were accepted by the local treasury in anticipation of the final act of incorporation under the colonial banking regulations, the balance sheet suggests that the Bank did not follow Scotch principles. This judgement is on the over-all picture; the Bank's practice in establishing branches at the outports may approximate the Scotch practice, but the situation was sufficiently different to bring into question the usefulness of the comparison. Then too, the Bank in its initial years appears to have treated deposits almost as an addition to capital, depositors receiving dividends along with the shareholders. We may conclude, therefore, that the Bank had a source of Scotch inspiration but that it developed, as it did in the forms of business it undertook, its own rationale and methods of operation.

At the same time the Bank was originally intended to follow the model of the Indian Presidency banks, particularly the Bank of Bombay. In this, no doubt, the prospectus of the Bank of China served as inspiration, but it is not at all clear how relevant the parallel actually was. In the first place the Bank of Bombay was *in fact* differentiated from exchange banks—it couldn't operate on the foreign exchanges—and yet the Hongkong Bank was to be modelled after the Asiatic, ironically an exchange bank originally promoted in Bombay by those with interests in the Bank of Bombay. Secondly, the Bank of Bombay had ceased to be a bank of issue in the full sense of the term, although it continued to handle the government's monetary issue. This would have been unsatisfactory to the promoters of the Hongkong Bank. Finally, the relationship between the Bank of Bombay

and its presidency government was closer than that which could be expected between the Hongkong Bank and the Hong Kong government—at least while other chartered banks could claim equal rights to be public depositories. Only on the matter of local finance can a reasonable parallel be drawn, and then with certain reservations, since the relevant Indian legislation was restrictive. On this matter then we may conclude charitably that the parallel may have seemed a reasonable one to those of the promoters unfamiliar with the detailed Indian situation, but that, as with the other self-imposed limitations, the Bank management did not permit itself to be restricted by the enthusiasms of its prospectus.

We now turn to the Bank and the Mint. Those of you who have become somewhat overawed by the success of the Hongkong Bank—or bored by constant reference to it—will be greatly relieved to hear that the problem of currency reform proved greater than even the Hongkong and Shanghai Bank. The schemes pressed upon the provisional committee for an end to the 'compradoric' system, at least as far as monetary matters were concerned, were based on the coincidence of the founding of the Hong Kong mint in 1866 and Hong Kong's *de jure* return to a dollar unit of account and a silver standard. The founding of the Hongkong Bank came at a time of monetary reform, and it is natural that its promoters should have been expected to play some rôle therein.

As it was hardly envisaged that the Bank would undertake the coinage, those who expected its founding to herald the end to monetary complexity must have supposed: (a) that the mint would be successful in coining an acceptable dollar coin which would pass current without the need for shroffing or chopping; (b) that a growing proportion of local transactions would be through the medium of banknotes; and (c) that the Bank would play the rôle of a clearing house. A successful dollar coin could not be minted unless silver came to the mint, and this, for reasons complex and beyond the scope of this lecture, did not happen. The use of banknotes and checking accounts did indeed increase, and eventually Hong Kong came *de facto* on a paper standard, though one very closely linked to silver, even while *de jure* on a silver standard. (I am only saying here that in the early twentieth century the exchanges cannot be wholly accounted for by relative silver prices.) Finally, the Bank has achieved something close to central bank status—it certainly has achieved this with the same reluctance that marked the progress of the Bank of England. But it was unlikely that any of these developments could take place within a brief period of time, and the complex currency and monetary system of the China-coast prevailed. There was little the Hongkong Bank could even attempt in this direction.

The Bank did make one heroic offer to save the Hong Kong mint when in 1868 it was scheduled for closure. This abortive take-over bid failed because the Bank's offer included the demand for exclusive note-issuing privileges in Hong Kong, and this the Hong Kong government could not grant in the face of the charter

privileges of the other note-issuing banks, the Oriental, the Chartered, and the Chartered Mercantile. (The mint machinery, you may recall, was actually sold to Japan, where it was reassembled and, in different circumstances, proved successful.)

If I have left the impression that the Hongkong Bank was not founded by some giant of industry who, with perfect foresight gave sure direction to the Bank from its beginnings, I have been successful. The Bank was founded by a shipping agent whose sole knowledge of banking, he said, were articles in *Blackwood's Magazine*, and I can assure you that these were inadequate preparation for bank management. Nor is it obvious that the times were propitious or that the Bank's original prospectus made sense *on the whole*. Perhaps the soundest comment was made in the letter written by A. F. Heard defending the rôle Augustine Heard and Co. was playing in the founding of the Bank: 'The local bank will succeed from its local support.'

Indeed the history of the founding of the bank, with its false starts and wrong premises, suggests to me the Socratic dialogue constructed by the late Professor Denis Robertson of Cambridge University to explain how the British monetary system worked despite its 'strange rules'. I should like to paraphrase the concluding section thus:

Socrates: Do you find the Hongkong and Shanghai Bank worked well?

Economist: Pretty well, thank you, Socrates, on the whole.

Socrates: That would be, I suppose, not because of the rather strange proposals found the prospectus of which you have told me, but because it was administered by men of ability and wisdom?

Economist: It would seem that that must be the reason, rather than the proposals themselves, O Socrates.

The only problem with this conclusion is that it places the stress back on the personalities rather than the problems and tends to undermine my very critical introductory comments. On the other hand severe criticism invites retaliation and I should prefer to find the flaws in my own arguments. On balance, however, I would insist that the theme or argument of a bank history must be provided by the economist, while at the same time admitting that a company history may indeed be many things. But I would accept this more moderate conclusion more willingly were not the economics all too often omitted and the inessential retained.

There may indeed be room for more than a single bank history. That is certainly my hope. For if, as Samuel Johnson has said, 'There are few ways in which a man can be more innocently employed than in getting money,' professors are relatively harmless while writing about it. And the controversies I have introduced this afternoon should serve to promote such activity. In any case such innocent employment should keep us from the barricades.

Bibliographical note. I have decided to publish the inaugural lecture as it was delivered and not encumber the text with footnotes. I would expect that the substantive portions will be revised and published elsewhere with the usual documentation. However, readers may wish to have a general idea of where the material came from and perhaps the full references to books actually named and to the quotations. This is the limited purpose of these notes.

The basic material for the study of the founding of the Hongkong and Shanghai Bank is to be found in the Augustine Heard archives, Baker Library, Harvard University, in the Jardine Matheson archives at Cambridge University, in the correspondence of the governors of Hong Kong with the Colonial Office, in the daily press of Hong Kong, and in other obvious files at the Colonial Office library and the Public Records Office, especially those dealing with banks founded at about the same time. Bank charters are found in Chancery rolls. The archives of the Bank itself have not as yet been made available to scholars.

The Bank's centenary history was entrusted to an historical novelist, Maurice Collis, *Wayfoong: the Hongkong and Shanghai Banking Corporation* (London, 1965); that of Chartered Bank to another literary figure, Sir Compton Mackenzie, *Realms of Silver: One Hundred Years of Banking in the East* (London, 1954). James Morris' study of the World Bank, *The Road to Huddersfield: a Journey to Five Continents* was published in New York (also in London) in 1963, but I do not recommend it for any purpose. Marriner and Hyde's business biography of the Senior John Samuel Swire was published in Liverpool, 1967. The reference to shipping competition on the Yangtze is to Kwang-Ching Liu, *Anglo-American Steamship Rivalry in China* (Cambridge, Mass., 1962).

The Centre of Asian Studies confirms its intention to publish the articles on the 'East in the World Monetary System, 1830-1890'. My *Concise Economic History of Modern China* was first published by Vora and Co., in Bombay, 1968, and in 1969 was published in New York

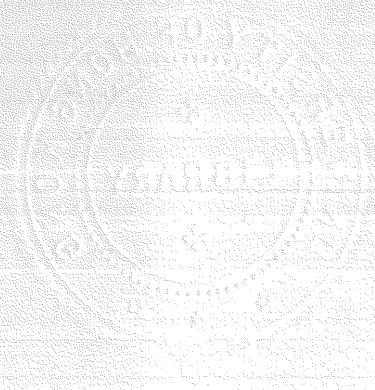
by Praeger and in London by Pall Mall. My history of the Bank of China (Bombay), the 'rival' of the Hongkong and Shanghai Bank, is found in our *Journal of Oriental Studies*, 7.1: 39-62 (January, 1969), and is also available in the Centre's reprint series. References to Bombay material will be found in that article.

I have used the *Ta-Ch'ing hui-tien* (Kuang-hsü edition, Peking, 1899) in my *Money and Monetary Policy in China, 1845-1895* (Cambridge, Mass., 1965). The reference to William F. Mayers' views on Chinese central government may be found in his *The Chinese Government* (Shanghai, 1878).

A recent definitive study of the Scottish banking system is Maxwell Gaskin, *The Scottish Banks: a Modern Survey* (London, 1965), and there is an important series of articles by F. S. Taylor, 'Differences in Scottish and English Banking,' *The Banker*, 95: 368-372 (1950-51) on the note issue and 96: 99-103, 153-156 (1951-52) on other matters. The article in *Blackwood's Edinburgh Magazine* which Sir Thomas Sutherland may have been referring to when he advocated founding the Hongkong and Shanghai Bank on Scottish principles was 'The Scottish Banking System,' in 41: 671-686 (1844). James William Gilbert's description of Scottish banking is found in volume two of his famous work, *A Practical Treatise on Banking* (London, 1856).

And, finally, I have taken the liberty of paraphrasing a section of Denis H. Robertson, 'British Monetary Policy,' in *Essays in Monetary Policy* (London, 1940), p. 159.

Acknowledgements. Research for an inaugural lecture must, from the very nature of the assignment, have been financed by other institutions. I should, therefore, like to express my appreciation for research grants received from the University of Kansas, where I was Professor of Economics. The assistance and encouragement of that institution and of my colleagues there made possible the initial stages of the research I intend now to develop.



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