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The Birth of Joint-Stock Banking: England and New England Compared

By the end of the nineteenth century, the banking systems of England and New England were very different. England possessed a small number of large-scale clearing banks that had established extensive branch networks and dominated the domestic market. In contrast, New England banking was characterized by a large number of small-scale institutions. Yet, a century earlier, there were striking similarities between the two systems. An analysis of their evolution over the course of the nineteenth century provides an international and comparative perspective on the continuing debate over banking institutions, lending patterns, and economic growth.

By 1900, England possessed a small number of large-scale clearing banks, with extensive branch networks, that dominated the domestic market. In contrast, New England had established a large number of small-scale banking institutions. Yet a comparison of the banking systems of England and New England reveals that, a century earlier, the two had displayed striking similarities. I will analyze the operations of these two banking systems during the nineteenth century, in order to contribute an international and comparative perspective to the ongoing debate concerning banking institutions, lending patterns, and economic

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growth.[1] Naomi Lamoreaux has demonstrated the importance of banks to the economic development of New England in the nineteenth century.[2] The early joint-stock banks (JSBs) of England were similarly crucial to the development of financial markets and economic growth in the United Kingdom. They formalized modes of banking undertaken by the private banks and established the foundations for a stable domestic banking system, thereby providing the environment in which other sectors, and the overall economy, could flourish.

In this study, I examine the early similarities between the two banking systems and seek to explain why they diverged so markedly in structure by 1900. Most critically, I analyze the impact of the diverging systems on the economic development of England and New England. My research focuses on the changing nature of banks' relations with business customers and on the ways they provided credit to such clients. By the end of the nineteenth century, the lending policies, and the adverse impact they had on economic progress, were broadly similar in England and New England, despite the differences in regulatory structures of the two banking systems.

After considering the broad development of banking in the United Kingdom and the United States, I review how JSBs and New England banks established their businesses. In the following sections, I consider the management of these two types of banks, their shares and shareholders, and their lending activity, looking closely at their practice of lending to shareholders and "insiders." Finally, I review the contribution of early nineteenth-century banks to economic development, before drawing my conclusions.

Developments in Nineteenth Century Banking

The separate legal and economic identities of the countries comprising the British Isles (England, Scotland, and Ireland) meant that banking systems differed in each country that made up the United Kingdom (U.K.), despite some broadly similar developments. Scotland led the way in developing joint-stock and branch banking. During the seventeenth century, private banks operated in Scotland. The Bank of Scotland, the only joint-stock institution, lost its monopoly in 1716. Scottish provincial banks emerged in the 1770s, many with large pro-

[1] This study follows a tradition of international comparisons in banking history, notably those of Rondo Cameron. See Rondo Cameron, *Banking in the Early Stages of Industrialisation* (Oxford, 1967); and Cameron, ed., *Banking and Economic Development: Some Lessons from History* (Oxford, 1972).

[2] Naomi Lamoreaux, *Insider Lending: Banks, Personal Connections and Economic Development in Industrial New England, 1784–1912* (New York, 1994).

prietaries and all with operating branches.[3] Three "public" (charter) banks also existed in Edinburgh (the Bank of Scotland, the Royal Bank of Scotland, and the British Linen Bank), and all were relatively large, stable institutions. An increase in joint-stock banking firms in Scotland occurred after 1810, and the country developed a stable banking system.[4] Legislation allowing the formation of joint-stock banks was passed later in Ireland (1821) and in England (1826). In England, this legislation allowed the creation of banks with more than six partners and freely transferable shares outside a sixty-five-mile radius of London.[5]

Local business communities responded enthusiastically to the reform in England. Overall, 138 JSBs were established under the 1826 Act, and of these only 19 failed or closed before the new banking legislation of 1844.[6] The growth of joint-stock banking was further facilitated in 1857 by the repeal of the restrictive 1844 Act, followed by legislation, in 1858 and 1862, allowing banks to adopt limited liability. Private provincial banks were gradually eclipsed.[7]

Before 1858, bank shareholders did not possess limited liability. Shareholders, or copartners, were usually local in origin, and their managements tightly regulated the sale and transfer of shares. Shares were not traded freely: directors were required to approve each share sale or transfer, and a fee was charged for the transfer of shares. There was also in place a postsale extended-liability requirement imposed by the Banking Co-partnership Act, tying shareholders into a commitment to the JSBs three years after the sale of their stock.[8] Therefore, the spread of both ownership and risk was severely restricted. The personal liquidity

[3] The word "proprietaries" is used, rather than "shareholders" or "stockholders," as these were not modern joint-stock corporations. Shares did not have limited liability, and therefore shareholders, or proprietors, who owned the company were responsible for the financial stability of the institution in which they invested. They were also not distant investors: they were active members of the business community in which the bank was located. Thus, the success of the banks upheld the success of the local economy. They were effectively copartners. The next section on bank shares and shareholders expands on this topic.

[4] Cameron, "Scotland," in *Banking in the Early Stages of Industrialisation*; Sydney G. Checkland, *Scottish Banking: A History, 1695–1973* (Glasgow, 1975); Charles W. Munn, *The Scottish Provincial Banking Companies, 1745–1864* (Edinburgh, 1981).

[5] The Bank of England was permitted to establish branches outside London, which serviced other banks, thus limiting their competition with JSBs. Dieter Ziegler, *Central Bank, Peripheral Industry: The Bank of England in the Provinces, 1826–1913* (Leicester, 1990), 6–7, 8–31.

[6] Michael Collins, *Money and Banking in the U.K.: A History* (London, 1988), 24. A total of 46 banks out of the 138 established have been analyzed here.

[7] The number of private banks fell from 650 in 1825 to 236 by 1875 (with 595 offices and branches), while joint-stock banks numbered 0 in 1825 and rose to 122 by 1875 (with 1,364 offices and branches). Collins, *Money and Banking,* 27, 52.

[8] The Banking Co-partnerships Act, 1826, 7 Geo. IV, c.46, XIII. See Charles R. Hickson and John D. Turner, "Shareholder Liability Regimes in English Banking: The Impact upon the Market for Shares," *European Review of Economic History*, vol. 7, issue 1 (2003): 99–125.

of unlimited-liability shareholders was required to secure depositors and creditors.[9]

Banking in the United States and the United Kingdom exhibited certain similarities in the first half of the nineteenth century, despite different regulatory frameworks. Both countries lacked national commercial, large-scale institutions, and each system included many small, local banks that successfully met the needs of local and regional economies.[10] In America, each state developed a unique banking system suited to the needs of its local business communities. Legislation was passed to accommodate these needs, and founders applying for a state charter often had to justify their bank's establishment in terms of the benefits it could bring to the local economy and community.[11] Banking institutions reflected "the desires, even the whims, of local residents."[12] In New England, small-scale, localized banking institutions were founded to service the financial requirements of "insiders"—that is, local bank directors, stockholders and officers, and their wider kinship networks. The early New England banks became as popular as English joint-stock banks. These small-scale unit banks that operated at a local level increased in number from 87 in 1820 to over 505 by 1869.[13] Barriers to entry were relatively low. In particular, capital requirements were not high, and in many states charters were granted freely.[14]

New England banks and English JSBs resembled each other closely in terms of their localized operations and their management structures. However, joint-stock banks in England differed markedly from their New England counterparts in the propensity to lend to "insiders." JSBs lent to their own directors and stockholders, but to a far lesser extent than the New England banks.[15] Furthermore, New England banks were

[9] Charles R. Hickson, John D. Turner, and Claire McCann, "Much Ado about Nothing: The Limitation of Liability and the Market for Nineteenth Century Irish Bank Stock," *Explorations in Economic History* 42, no. 3 (2005): 463.

[10] See Richard Sylla, "The United States," 199–262, in *Banking and Economic Development*, ed. Cameron.

[11] Howard Bodenhorn, *State Banking in Early America: A New Economic History* (Oxford, 2003), 73, 78, 85.

[12] Howard Bodenhorn, *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation-Building* (New York, 2000), 12. See also Larry Schweikart, *Banking in the American South from the Age of Jackson to Reconstruction* (Baton Rouge, 1987), ch. 5; and George Green, *Finance and Economic Development in the Old South: Louisiana Banking, 1804–1861* (Stanford, 1972), 18.

[13] Lamoreaux, *Insider Lending*, 4, 12–18.

[14] Following the New York Free Bank Act of 1838, the principle of "free banking"—whereby banking was not to be restricted to a privileged few but rather was to be open to all—was largely adopted in the United States. By 1860, over half of the states had enacted some type of free banking law. Hugh Rockoff, *The Free Banking Era: A Reexamination* (New York, 1975).

[15] See Lucy A. Newton, "Regional Bank–Industry Relations during the Mid-Nineteenth Century: Links between Bankers and Manufacturers, c.1850 to c.1855," *Business History* 38, no. 3 (1996): 64–83; and Lamoreaux, *Insider Lending*, 82.

fully incorporated and were able to confer limited liability on their shareholders, unlike their English counterparts.[16] The dissimilarity in the two banks' operating systems was another key difference between them. After 1826, the Bank of England was able to establish branches, whereas the Bank of the United States and its branches were eliminated from New England in 1836. Bank of England branches provided support and stability in the English financial system, while the level of financial integration in the U.S. banking system was much lower.

The U.S. banking system was fashioned by laws that restricted branch banking and consolidation and protected unit or single-office banks. Regulation varied at the state level.[17] Commercial banks in America were chartered by the states before 1864. It was not until the National Banking Act was passed, in 1864, that Congress provided a permanent arrangement for the federal chartering of both state and national banks.[18] Most state charters restricted branch banking, though branching did occur in southern and western states.[19] Similarly, joint-stock banks in England were usually small-scale, local unit banks, although they were permitted to establish branches, and some regional institutions developed. Only after the merger movement, which began in the 1880s, did large-scale joint-stock banks appear and the structures of the U.K. and U.S. banking systems diverge.

A comparison of two similar banking systems in the first half of the nineteenth century and their consequent development is a worthy subject, not only in itself, but also in terms of the consequences of the respective banking systems on regional and national economies. This aspect of banking evolution will be examined next.

After 1830, New England experienced rapid industrialization. By 1880, it was an urban and industrialized economy and the most developed region in the United States. However, after 1880, railroads and improvements in communications resulted in a more unified national economy, and the region lost its industrial leadership by the 1920s, particularly in its main industries of textiles, boots, and shoes. More dynamic regions to the west rose to prominence. The capitalists of New England turned their attention to whaling, sea trade, and western railroads. Investments in ventures outside the region meant they could take advantage of opportunities provided by more rapid economic growth

[16] Rhode Island banks chartered in the early 1830s were an exception. Lamoreaux, *Insider Lending*, 29.

[17] For the variety in legislation in early nineteenth-century New England alone, see Bodenhorn, *State Banking*, 81–87; and Lamoreaux, *Insider Lending*, 57.

[18] Two national banks had been chartered before this date: the First Bank of the United States in 1791, and the Second Bank of the United States in 1816, which ceased in 1836.

[19] Bodenhorn, *State Banking*, 12–18, 250, 270.

elsewhere, and profits generated from such investments were an important source of regional income. Financial intermediaries, including the region's banks, helped to channel the flow of such investments. Other manufacturing industries, such as machinery, instruments, and metal fabricating, also grew, as did a thriving service sector, helping to offset the decline in traditional industries.[20]

England led in the rapid economic development of the United Kingdom that began in the late eighteenth century and resulted in Britain's becoming the world's leading industrial nation for most of the nineteenth century. Coal, textiles, iron and steel, transportation, and engineering were the classic sectors fueling this expansion. Growth slowed after 1880, while other industrial powers, such as the United States and Germany, progressed faster. Yet Britain's industrial production continued to increase (albeit at a slower rate), and it remained the most industrialized country in the world in 1914.[21] It is also important to note that, before the 1880s, despite some large-scale organizations, most business units still operated on a small scale with low levels of capital requirements, and banks were usually able to meet their demands for financing.[22]

Banks had an important role to play in the economic development of England and New England. In the next section, I analyze the extent to which banks contributed to the respective economies in which they were situated and show how this contribution changed over time. First, they had to overcome opposition and establish themselves as viable financial intermediaries.

Establishing Banks

Despite the growth in numbers of small-scale banks in England and New England, both sets of banks faced initial opposition. The public viewed English joint-stock banks as very different from their private predecessors. JSBs were untried and untested in England, and managements had to create a reputation and signal their viability. Unlike private banks, joint-stock institutions paid interest on credit balances, small accounts were accepted, and local notes were usually exchanged free of

[20] Peter Temin, ed., *Engines of Enterprise: An Economic History of New England* (Cambridge Mass., 2000), chs. 3, 4; Arthur M. Johnson and Barry Supple, *Boston Capitalists and Western Railroads: A Study in Nineteenth-Century Railroad Investment* (Cambridge Mass., 1967).

[21] Peter Mathias, *The First Industrial Nation: The Economic History of Britain, 1700–1914* (London, 2001, 2nd ed.).

[22] Lucy A. Newton, *The Victorian Economy in Transition: A Regional Perspective* (Aldershot, forthcoming).

charge. The payment of interest on credit balances was a key tactic in attracting depositors. JSBs also provided more convenient opening hours for their customers. These strategies often involved start-up costs for the banks, but joint-stock bank founders were keen to attract business. Private bankers were usually openly hostile: the two sets of institutions were locked in direct competition with one another, yet some, realizing that future business prosperity lay with JSBs, chose to amalgamate with them.[23]

Joint-stock banks used public pamphlets, periodicals, newspapers, and prospectuses to promote their activities.[24] Private bankers responded. In 1827, the *Circular to Bankers* was established, initially to air the views of private bankers, who wasted no opportunity to attack joint-stock banks, especially for a perceived lack of confidentiality.[25] Private bankers believed that local businessmen should not run banks, due to the potential conflicts of interests that might arise when lending to business customers. To counter these criticisms, joint-stock banks usually included a declaration of secrecy in their founding documents, signed by all the directors.[26] A close connection to, rather than any separation from, local trade and industry was also emphasized by bank managements as a positive rather than a negative attribute. Some of the new JSBs were actually formed out of existing private houses that had either been experiencing difficulties or wished to take advantage of the potential for extending business under the new joint-stock form. This could help to solve reputational issues: new joint-stock banks inherited customers and staff and, to some degree reputations, from their private predecessors.

New entrants to the banking system in early nineteenth-century New England faced similar opposition from older, established institutions. The older banks were corporations, as were the newer entrants, but they had been founded when state charters had not been so freely available. The new entrants were accused of establishing themselves merely to profit their directors, of lacking financial resources, and of being a threat to the financial stability of the entire banking system. Yet these "new" New England banks often had well-respected and successful businessmen as their directors. These men signaled a "good" reputation and provided investors and depositors with confidence in the new

[23] Joseph Sykes, *The Amalgamation Movement in English Banking, 1825–1924* (London, 1926), 8–17.

[24] For example, HBC Prospectus, H41/18, HSBCGA.

[25] Cheryl Bailey, "The Circular to Bankers," *Bulletin: Newsletter from the European Association of Business Historians* (EABH), 1999, no. 2: 20–21.

[26] For example, Coventry Union Banking Co. [CUBC], Board of Directors minutes [BDM], AB3, HSBCGA.

institutions. As there were relatively few bank failures in the region and many of the new banks went on to eclipse their older rivals, such fears turned out to be unfounded.[27] Indeed, both the new JSBs in England and the fresh entrants in New England were able to achieve long-term success, despite initial opposition to their establishment. The management of these institutions was crucial to this success and, in turn, to the banks' ability to contribute to the economies in which they were located.

The Management of JSBs and New England Banks

Directors managed both English joint-stock and New England banks. These men were generally drawn from local communities and were usually active members of the local business milieu. Several JSBs insisted that directors be local residents. The Coventry & Warwickshire Bank stated that directors were to "be chosen from subscribers of station and character and property resident in Coventry."[28] Boards of joint-stock banks also sometimes invited a specialist banker to become a member, particularly when a JSB had been formed through the conversion of a private bank, but most were made up of local traders and manufacturers.

The same was true in New England. For example, the Shawmut Bank in Boston, chartered in 1836, was founded by a group of merchants. These men had been involved in previous business ventures together, and all operated locally. The Bath Bank, of Bath, Maine, was established in 1855 by a group of local shipbuilders and owners. The American Bank of Providence (Rhode Island) was chartered in 1833 by a group of textile merchants and manufacturers, and the bank's directors were not only involved in the local economy but were also linked through kinship.[29]

Both New England and English joint-stock banks possessed few paid officials and were controlled by a small board of directors, who decided upon strategy and lending outcomes. In the case of JSBs, boards comprised between six and ten directors, who were all required to hold shares in the banks for which they were executives. Directors usually met weekly, or fortnightly, when decisions were made regarding bank administration and lending, in addition to the sale and transfer of bank

[27] Lamoreaux, *Insider Lending*, 18–19, 58, 62–63.

[28] Coventry & Warwickshire Banking Co. [CWBC], BDM, 24 Oct. 1835, 045, LTSBGA.

[29] The influence of specific families on boards of banks was often long lasting. See Lamoreaux, *Insider Lending*, 23–25; and Lucy A. Newton, "Change and Continuity: The Development of Joint Stock Banking in the Early Nineteenth Century," University of Reading discussion paper, 2007.

shares. Bank managers were in charge of branches but did not make the final decisions about lending policy.

The same was true in New England. Directors met weekly or biweekly, and meetings tended to be well attended: "the real managers of an early nineteenth-century [New England] bank were its directors." They "decided who should receive the loans."[30] These early nineteenth-century banks therefore had simple structures: they operated at a parochial level and were run by relatively few individuals who possessed and processed local economic and financial information.

The establishment and management of banks by groups of businessmen had the potential advantage that directors could assess the standing and creditworthiness of customers. Close monitoring of borrowers was facilitated by the relatively small scale of JSBs and New England banks, although even the larger banks in New York and Pennsylvania operated on similar principles.[31] Thus, bank managements minimized monitoring costs. In New England, insider lending usually operated successfully, as it was in both the financial and the reputational interests of the bank founders or directors to monitor each other's borrowing. The management of banks by groups of businessmen also guaranteed close links with local enterprises. Banks were embedded in local industrial districts and provided credit and payment facilities to merchants and manufacturers in the vicinity. This local commitment also extended to the ownership of the banks, leading to a consideration of bank shareholders.

Bank Shares and Shareholders

People purchasing shares in the new English joint-stock banks were exposed to unlimited liability and a postsale extended liability period of three years. Consequently, it was vital for banks to attract wealthy shareholders, to successfully underpin the new institution, and to establish a reputation for solidity and liquidity that is so crucial in banking. In addition to unlimited shareholder liability, bank shares were rarely fully paid up and often had high denominations. A depositor's wealth therefore ultimately depended upon that of the investors. Given these conditions, it is unsurprising that bank directors paid such close attention to the screening of share sales and transfers, despite the high costs involved in doing so. They were examining copartners, rather than remote shareholders.

[30] Lamoreaux, *Insider Lending*, 3–4, 77.

[31] Robert E. Wright, "Bank Ownership and Lending Patterns in New York and Pennsylvania, 1781–1831," *Business History Review* 73 (Spring 1999): 58, 59.

Applications for shares were laid before the board for approval.[32] The same procedure applied to share transfers: directors of the banks controlled the secondary-share market.[33] Many applications were rejected due to their "unsuitable" nature, but no more revealing details were recorded. For instance, the board of the Nottingham & Nottinghamshire Bank stated that, of the 8,147 applications for shares that were submitted when the bank was founded, 5,596 were accepted and 2,381 rejected.[34]

Who were these shareholders? Their stated residences were predominantly local. Table 1 shows the share capital invested by the county of origin for four joint-stock banks in their year of establishment. The majority of shareholdings originated from the county in which the main bank office was located. Few shareholdings originated from London: only 1.5 percent in the Liverpool Union Bank in 1835; 4 percent in the Hampshire Banking Company in both 1834 and 1853; and 3 percent in the County of Gloucester Banking Company in 1831. These levels are typical of the banks represented in this sample.[35]

Local investment remained high and sometimes increased over time. Shareholdings in the Barnsley Banking Company originating from Yorkshire increased from 60 percent in 1832 to 85 percent in 1852. In the Hampshire Banking Company, shareholdings from Hampshire increased from 69 percent in 1834 to 90 percent in 1854. JSBs therefore were successful in establishing their reputations at a local level over time. Information on local shareholders was also easy to obtain through local networks, giving the banks greater confidence that they were attracting "sound" investors.

JSB shareholders were predominantly middle class, consisting largely of those engaged in the professions, individuals of independent means, and manufacturers and merchants involved in local industries. The occupational structure of shareholders reflected the complexion of their local economies. Bank proprietors operated in the same local business networks as their directors. In New England, patterns of shareholding also reflected their local communities. Bank directors and their kinship networks were significant shareholders, and they participated in local business. Even shareholders "outside" such connections tended to be

[32] For example, see Sheffield Union Bank [SUB], BDM, 12 June 1844, AD2, HSBCGA.

[33] See Bradford Banking Company [BradBC], book no. 5, 25 May 1846, B6, HSBCGA.

[34] Nottingham & Nottinghamshire Banking Co. [NNBC], BDM, 21 Jan. 1834, 574, RBSGA. The rejection rate of 29 percent was higher than the rate for credit applications (24.3 percent). See also Charles R. Hickson and John D. Turner, "The Trading of Unlimited Liability Bank Shares: The Bagehot Hypothesis," *Journal of Economic History* 63, no. 4 (2003): 940.

[35] For an analysis of investment patterns of Londoners on the London Stock Exchange, see Lance E. Davies and Robert A. Huttenback, *Mammon and the Pursuit of Empire: The Economics of British Imperialism*, abridged ed. (New York, 1988), 178–79.

Table 1
Geographic Origins of Joint-Stock Bank Shareholdings

Bank	*Year of Establishment*	*County of Bank's Location*	*Total Shareholdings Originating from County of Origin (%)*
Liverpool Union Bank	1835	Lancashire	89
County of Gloucester Banking Company	1836	Gloucestershire	90
Hampshire Banking Company	1834	Hampshire	69
Barnsley Banking Company	1832	Yorkshire	60
Huddersfield Banking Company	1827	Yorkshire	91

Sources: Lloyds TSB Group Archives: Liverpool Union Banking Company, 3544, proprietors' ledger (1835–47); County of Gloucester Banking Company, 1954, deed of settlement (1836); Hampshire Banking Company, 1085, shareholders' register (1835–84); HSBC Group Archives: Barnsley Banking Company, A4, share ledger (1832–1896); Huddersfield Banking Company, H24, share register.

from the local community. Between 1819 and 1860, investment in bank stocks increased more than sevenfold.[36] There were also institutional investors. Large numbers of New England bank shares were purchased by insurance companies, savings banks, and charitable institutions. Unlike English JSBs, New England banks' managements did not control the secondary market in bank shares: the market in banks stock was well developed by the 1830s. But the majority of share ownership was maintained by New England bank directors and their kinship networks.[37]

Local investors brought business to banks and were more likely to have a commitment to the institution.[38] In contrast, those who lived outside the district were unlikely to utilize the bank's services and did not bring a large amount of business to banks through their connections.[39] Joint-stock banks in England allocated some shares on the condition that the shareholder would open an account with the bank, thereby explicitly generating business. Liverpool Union directors resolved that, following the initial allocation of shares, "no shares [would] be granted to any individual or firm without [a] premium or a satisfactory account

[36] Lamoreaux, *Insider Lending*, 22.
[37] Ibid., 19, 71, 68.
[38] Mark Casson, "Culture as an Economic Asset," in *Business History and Business Culture*, ed. Andrew C. Godley and Oliver M. Westall (Manchester, 1996), 68.
[39] Philip Ollerenshaw, "The Development of Banking in the Bristol Region, 1750–1914," in *Studies in the Business History of Bristol*, ed. Charles E. Harvey and Jon Press (Bristol, 1988), 65.

being offered with the bank."[40] The Coventry Union imposed a premium of two pounds per share on shareholders who were allocated shares but did not open an account with the bank.[41] Offering shares at favorable prices in return for prestigious accounts was a way to poach business. These shares could also be used to secure the extension of an overdraft on the same account. The North & South Wales Bank declared that every shareholder would be able to draw upon the bank in the form of cash credit to the extent of half of his or her paid-up capital.[42] The allocation of JSB shares was thus deliberately utilized to attract business, and founding directors made full use of local networks to these ends. The manager of the Coventry Union was asked to "make such enquiries as will afford information to the directors to enable them to allot shares to such parties as are most likely to promote the interests of the company."[43] This contrasts with the findings in New England, where "records show that most small shareholders rarely if ever borrowed from their banks." Rather, these banks frequently extended credit to its directors and major shareholders—that is, to "insiders."[44]

Joint-stock bank shares were not just purchased for access to credit. They could also be very profitable investments in their own right, and there was much demand for them. Dividends of 10 percent for bank shares were normal in the 1850s and 1860s.[45] New England banks also placed high importance upon dividends, to the extent that they were reluctant to reduce dividends when earnings were low. High dividends provided bank stock with the "image of soundness." In the mid-Atlantic region of the United States, bank stockholders "expected to gain most from their returns on dividend payments, not from increases in the market prices of shares."[46]

English shareholders had voting rights at the banks' annual general meetings. For example, the Bradford Banking Company restricted voting by shareholders to one vote per five shares, two votes per ten shares, and three votes per twenty shares and above; no shareholder was entitled to more than three votes.[47] As a result, no one large shareholder could dominate the governance of the bank, as occurred in New

[40] Liverpool Union Banking Co., BDM, 24 Apr. 1835 and 17 Sept. 1835, book no. 093, LTSBGA.

[41] CUBC, BDM, 13 May 1836, AB3, HSBCGA.

[42] North & South Wales Bank, prospectus, 1836, M166, HSBCGA.

[43] CUBC, BDM, 13 May 1836, AB3, HSBCGA.

[44] Lamoreaux, *Insider Lending*, 72.

[45] Sayers, *Lloyds Bank*, 109–38; Lucy A. Newton and Philip L. Cottrell, "Female Investors in the First English and Welsh Commercial Joint-Stock Banks," *Accounting Business and Financial History* 16, no. 2 (2006): 331–32.

[46] Wright, "Bank Ownership," 44.

[47] BradBC, Prospectus, B42/3, HSBCGA.

England.[48] In this study, I found no example of shareholders intervening in the running of a bank or objecting to the conduct of directors or their policies. Candidates for election to the board were approved in advance by existing directors, and usually only one prospect was put forward. Balance sheets and reports presented to annual general meetings appear to have been approved without complaint. This may have had more to do with the fact that the banks considered here tended to be successful and well managed than with shareholder passivity. High dividends would also have acted as a disincentive to disrupt the current management. Access to internal company information would have been severely restricted as well, thus limiting the power of shareholders.

Likewise, in New England "shareholder activism was rare." Stockholders "almost never challenged their directors' decisions about lending policy or, for that matter, anything else."[49] Directors of both sets of banks were concerned with day-to-day operations and lending; they retained ultimate power over their institutions. Shareholders, although copartners and not distant investors, may have opened accounts and helped to generate business, but they were not active in the governance of JSBs. In contrast, Robert E. Wright found that stockholders in New York and Pennsylvania "were frequently powerful enough to stop insider practices when they emerged," demonstrating the potential power of shareholders in larger banks.[50] Nineteenth-century shareholders also actively intervened in the corporate governance of other types of companies, especially when the firms experienced difficulties or were run inefficiently.[51]

Ownership of banks in England and New England by local shareholders, who were often involved in local business activity, reinforced the commitment of banking institutions to economic development in the regions where they were situated. The most significant aspect of this commitment can be seen in the provision of credit to local industry via lending.

Bank Lending

Lending by English joint-stock banks took the form of discounting bills of exchange and overdrafts; both were short term, based upon funds from deposits that were subject to withdrawal at short notice. Yet

[48] Lamoreaux, *Insider Lending*, 73.

[49] Ibid., 74.

[50] Wright, "Bank Ownership," 52.

[51] Colleen A. Dunlavy, "Corporate Democracy: Stockholder Voting Rights in Nineteenth-Century American and Prussian Railroad Corporations," in *Institutions in the Transport and Communications Industries*, ed. Lena Andersson-Skog and Olle Krantz (Canton, Mass., 1999), 33–59; Pearson, "Shareholder Democracies?"; and Newton, *Victorian Economy in Transition*, ch. 7.

renewals of overdrafts ensured that some longer-term lending took place.[52] Bills would usually be discounted by a manager or a clerk and were the JSB's most routine form of lending.[53] Bill discounting did not usually require approval at board meetings. Consequently, little material survives for this form of credit, and it is impossible to calculate what proportion of lending was made up of overdrafts or bill discounting. In contrast, applications for overdrafts were vetted by directors at board meetings and are better captured in archival records. Thus, I will focus here upon lending in the form of overdrafts.

Directors approved and set terms for advances. It is likely that potentially unsuccessful applications were sifted out by local managers at a screening stage. The threshold and conditions of lending probably also became widely known and explicitly understood in the local business community. As a result, there were high rates of approval for credit applications. Formal criteria for assessing creditworthiness are not recorded, but directors had clear, if implicit, standards for assessing customers' business proposals and their likely outcomes.[54]

Common strategies for obtaining information about customers were examining balance sheets and interviewing company partners or directors.[55] Banks also provided information about customers to each other. Local banks had an advantage in not having to employ specialists to assess the information gathered by these means, as their executives were equipped to evaluate such data. Directors would even collect information themselves: in 1860, the chairman of the Ashton Bank visited company premises offered as security by a local manufacturer.[56] In this way, transaction costs were reduced, and the most efficient use was made of available information. In essence, members of the business community were able to monitor each other's activities, and they risked losing their reputations if they failed to repay credit.

Likewise, in New England, lending took the form of discounting notes, which could be commercial (the equivalent of English bills of exchange) or accommodation notes (which functioned much like the English overdraft) and would be extended to "insiders" or to members of the local economy. Both types of credit were nominally for the short

[52] Newton, *Victorian Economy in Transition*, chs. 3, 4.

[53] Bill discounting could also act as a source of information about customers and a point of regular contact with them. Shizuya Nishimura, *The Decline of Inland Bills of Exchange in the London Money Market, 1855–1913* (Cambridge, U.K., 1971).

[54] Lucy A. Newton, "Trust and Virtue in Banking: The Assessment of Borrowers by Bank Managements at the Turn of the Twentieth Century," *Financial History Review* 7, no. 2 (2000): 177–99.

[55] For example, LUBC, BDM, 23 June 1836, book No. 93, LTSBGA.

[56] Ashton, Stalybridge, Hyde and Glossop Banking Co. [ASHGBC], 14 Feb. 1860, 10145, RBSGA.

term, but accommodation notes were frequently renewed for longer periods. Unlike English banks, funds for lending were not derived from deposits, but rather from bank stock.[57] Also, unlike JSBs, much lending in New England went to bank "insiders," and monitoring took place via kinship networks. This system operated successfully during the first half of the nineteenth century, as it was in the interest of both bank directors and the local economy to undertake such monitoring.[58]

Lending rarely extended beyond the immediate area of an institution, or what might be termed the "area of knowledge" of a bank's management. In the case of English joint-stock banks, there were few instances of credit's being extended to customers located beyond a bank's parochial hinterland.[59] For example, 91 percent of credit extended by the Sheffield Union Bank between 1843 and 1846 went to customers residing or working in the town of Sheffield.[60] Restricting the boundaries of business reduced problems of information collection, communication, and transportation and, consequently, minimized risk. The policy was also logical, given that, during their early development, banks needed to establish a successful local sphere of operation before attempting to diversify outside their immediate regions, which would have required them to familiarize themselves with different types of knowledge and information channels.[61]

The lending activity of the New England banks was also localized, as they were prohibited from establishing branches, but their lending was even more confined by their practice of servicing the enterprises of the founding directors. The Sutton Bank of Massachusetts was found, upon its failure in 1829, to have lent nearly 90 percent of its funds to businesses that were owned by the Wilkinson family, the same family that dominated the bank's board of directors and held nearly 90 percent of the bank's stock. In 1845, the Wakefield (Rhode Island) Bank lent 84 percent of its funds to members of three families, who were

[57] Lamoreaux, *Insider Lending*, 1–3, 19.

[58] Ibid., 26, 76.

[59] Lending data that corresponded in time to shareholding data were found for twelve of the forty-six banks surveyed. Lending data were sampled, taking three years that corresponded with shareholding data from the following sources: LTSBGA: Halifax Joint Stock Bank (Securities notebook, 1668), LUBC, BDM, 93; HSBCGA: BBC (BDM, A12 and A16), BradBC (BDM, B2 and B28), HBC (BDM, H4 and H7), CWBC (BDM, 45 and 47), SUBC (BDM, AD2); and RBSGA: ASHGBC (BDM, 10144 and 10145), Bilston District Banking Co. (BDM, 11342), NNBC (BDM, 574), Sheffield & Rotherham Banking Co. (BDM, SR/1/1, 01095S and SR/1/5, 01097S).

[60] SUBC, BDM, AD2, HSBCGA.

[61] Similar localization of lending occurred in the northeastern United States in the early nineteenth century. More lending occurred outside the area after 1870. See Andrew A. Beveridge, "Local Lending Practice: Borrowers in a Small Northeastern Industrial City, 1832–1915," *Journal of Economic History* 45, no. 2 (1985): 397.

themselves interrelated and who controlled the bank.[62] The tradition of insider lending maintained the local nature of lending patterns in New England. There has been no comparable study of insider lending to bank directors in the United Kingdom, but a regional study made some data available for banks in the town of Sheffield. In 1856, lending to bank directors by the Sheffield & Hallamshire Bank was approximately 2 percent of total lending (advances and bills of exchange), increasing to nearly 11 percent in 1879. The figure for the Sheffield Union was nearly 40 percent in 1856, but this figure declined thereafter, due to the difficulties this arrangement brought to the bank.[63] Only two banks are considered, but they demonstrate that, at least in these cases, insider lending was considerably lower in England than in New England.[64]

Therefore, like shareholders and managements, English and New England bank customers were local in origin, and the lending profiles of banks reflected the economies in which they operated. In the case of New England, they also reflected their directors' immediate interests and kinship networks. But despite the localization of lending, there was a critical difference between the two banking systems that potentially provided greater stability and financial integration to the English system. The existence of Bank of England branches enabled JSBs and private banks to offset the risks inherent in local lending by rediscounting local bills of exchange with London discount houses or by utilizing extra cash to purchase bills from London discount houses. This facilitated diversification and financial integration for English banks, advantages that the New England system did not possess.[65] Financial integration in pre–Civil War America was accomplished by note brokers who circulated the banknotes of free banks across the country; the result was a much less stable system.

What of the conditions on which credit was extended? Joint-stock banks could demand the posting of security in order to reduce the risks inherent in lending. Such requirements made customers less willing to take risks, and therefore potentially lessened the risk of default.[66] During

[62] Lamoreaux, *Insider Lending*, 53.

[63] Newton, "Regional Bank–Industry Relations," 67, 73–75.

[64] The two Sheffield banks are fairly representative, in terms of lending practices, of the industrial regions of England.

[65] Under the National Banking Act of 1864, country banks were allowed to hold a fraction of their reserves as deposits with reserve city banks located in New York or other large financial centers. Yet this system was not sensitive to changes in demand for credit. Robert A. Degen, *The American Monetary System: A Concise Survey of its Evolution since 1896* (Lexington, Mass., 1987), 18; Benjamin J. Klebaner, *American Commercial Banking: A History* (Boston, 1990), 92–98.

[66] Joseph E. Stiglitz and Andrew M. Weiss, "Credit Rationing in Markets with Imperfect Information," *American Economic Review* 71, no. 3 (1981): 393–410; Stiglitz and Weiss, "Incentive Effects of Terminations: Applications to the Credit and Labor Markets," *American Economic Review* 73, no. 5 (1983): 912–27.

this period, security usually took the form of property, company works, promissory notes, and shares. Again, the specific expertise of bank directors allowed them to assess the suitability of such security. Yet it was frequent practice for the JSBs to grant credit to customers without any kind of formal security. This approach substantially increased the need for bank directors to screen and monitor customers, as such advances were, theoretically, considerably more risky than those gained by lodging formal security with the bank. It is also indicative of the personal liability shouldered by manufacturers who ran their companies without limited liability. Partners were fully liable for the debts of an enterprise, and banks lent to firms on the basis of this risk.

A credit dataset for twelve banks in this study reveals the type of security offered in just over half (54 percent) of the business credit applications made, totaling £2,191,796. Fourteen percent of these (£315,483) had no form of collateral security. A further 16 percent were secured by personal bonds or guarantees, usually signed by participants in the enterprise who required credit or by their friends or relatives. Thus, 30 percent of the credit examined in this sample did not involve a formal deposit of collateral security.[67] An even higher proportion of credit extended without collateral was typical in New England. In 1890, "64 percent of the loans granted by Boston's national banks were still based entirely on personal security."[68] Likewise, in the case of the Cheshire Provident Institution for Savings, New Hampshire, "from 1833 to 1852 almost two-thirds of all loans were personal with no pledged collateral."[69] Lamoreaux argues that "personal security was considered safer than collateral security, because the notes were backed by all the resources of the endorser(s) as well as those of the borrower."[70] Obtaining unsecured credit favored customers about whom information, trust, and confidence could be obtained, the most likely sources being mutual customers and managers taking part in local business and kinship networks, or via an established customer–lender relationship.

When customers applying for credit offered security, English bank managements would accept shares in their own institutions. The Bradford Banking Company ruled that advances could be made to the company's proprietors, but "not £1,000 beyond the value of their stock."[71] Likewise, in New England, bank directors who were also shareholders

[67] The data cover the period from 1826 to 1870. The findings are similar to those of Forrest Capie and Michael Collins, "Industrial Lending by English Commercial Banks, 1860s–1914: Why did Banks Refuse Loans?" *Business History* 38, no. 1 (1996): 35; and Capie and Collins, "Banks, Industry and Finance, 1880–1914," *Business History* 41, no. 1 (1999): 42.

[68] Lamoreaux, *Insider Lending*, 101, 82.

[69] Beveridge, "Local Lending Practice," 399.

[70] Lamoreaux, *Insider Lending*, 2.

[71] BradBC, BDM, 1 June 1827, B2, HSBCGA.

used their own stock to gain access to credit "that could significantly exceed the value of the shares they continued to hold."[72] The survey of English joint-stock bank lending shows that bank shares were offered to secure accommodation totaling £148,305, or nearly 7 percent of the total sample. Banks' shares could be reclaimed on bad debts, and directors could also use the possession of bank shares as a further implicit form of security when extending credit.[73] This can be seen in the practice of providing credit to bank proprietors who did not deposit bank shares as formal security. Such links between bank shareholding and lending were common. Bank shareholders had already undergone a process of screening when applying to purchase shares in JSBs. Thus, bank managements were making efficient use of information about potential borrowers that had been ascertained in a previous exercise. The act of purchasing bank shares also demonstrated that the borrower possessed capital. Lending to shareholders may therefore be viewed as a means of reducing uncertainty and information asymmetry. It is possible that extending credit to shareholders could reduce moral hazard: those in possession of bank shares may have been less willing to participate in behavior that could jeopardize the bank in which they held an investment.

The frequency with which joint-stock bank shareholders applied for credit from their own banks ranged from 10 percent to 62 percent of total credit applications per bank. This demonstrates that investors took the "bait" of credit used to entice them to buy shares. Figure 1 shows applications by bank shareholders that were approved, as a percentage of total applications. It illustrates that a considerable proportion of credit was granted to shareholding customers. The highest level was 58 percent of total advances (extended by the Ashton Bank in the 1830s), and the lowest was 11 percent by the Bradford Banking Company in the 1840s. Average lending to shareholders by the twelve banks in a given time period was 29 percent of total lending per bank. In the cases of the Sheffield & Rotherham Bank and the Bradford Banking Company, the approval of credit to bank shareholders declined over time: from 32 to 15 percent, and from 16 to 11 percent, respectively. In the case of the Ashton Bank, lending to shareholders decreased more dramatically, falling from 58 percent in 1836 to 17 percent in 1859.

Some credit extended to English shareholders would have been granted to bank directors, as all were required to hold shares in their institutions. Lending to shareholders was especially important to JSBs at their inception—before they were able to establish an earnings record

[72] Lamoreaux, *Insider Lending*, 21.
[73] For example, see CWBC, BDM, 3 Feb. 1837, 045, LTSBGA.

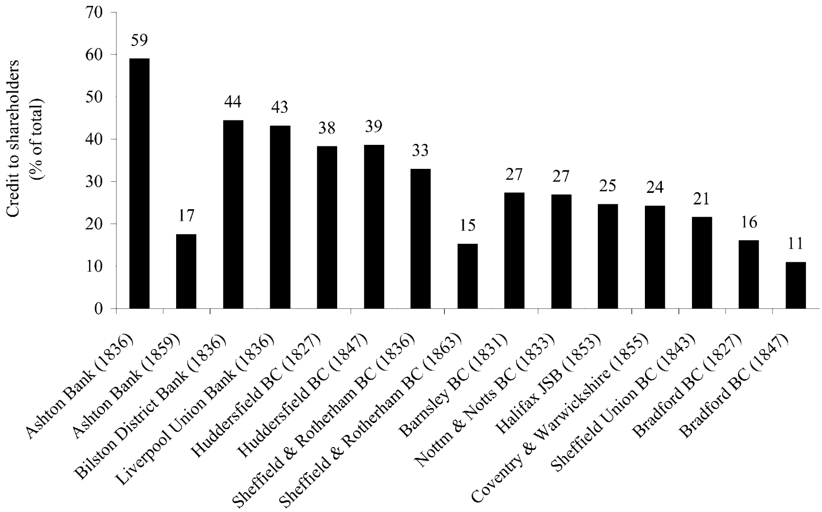

Figure 1. Credit received by bank shareholders—percentage of total business credit granted.

with which to attract potential customers. Once these banks became established, their lending base usually expanded and more credit was granted to "outsiders." From a supply-side perspective, an increase in the volume of deposits taken as joint-stock banks developed meant that they had more lendable resources and could increasingly meet the needs of "outsiders."[74] From a demand perspective, economic expansion meant more alternative sources of funding for firms. In New England, this led to a reduction in insider lending, as bank directors had less need to draw on their own institutions for funds.[75]

It is also likely that the level of lending to shareholders was associated with the internal methods by which banks gathered information regarding customers. As the business of English joint-stock banks expanded, the pool from which shareholders and borrowers could be drawn also grew, and consequently information asymmetry could increasingly become a problem. If banks no longer chose to lend large amounts to their own shareholders, it was probably a reflection of the increasingly successful methods (and growing confidence in them) that bank managements used to screen "outside" borrowers. Such methods could include the greater use of financial statements or the formation of credit committees within the banks, but they did not include credit agencies

[74] For example, deposits and balances due by the Sheffield Union Bank increased from £86,000 in 1850 to £161,000 in 1860. SUB, BDM, AD 2, 3, 4, and 5, HSBCGA.

[75] Lamoreaux, *Insider Lending*, 84, 88–89.

(which had not yet been established in Britain). More rigorous evaluation of creditworthiness was necessary when bankers were forced to monitor borrowers with whom they had no personal connection. New England bankers utilized such mechanisms, as well as subscribing to reports compiled by credit agencies, as "insider lending" declined during the second half of the nineteenth century.

Having surveyed the lending practices of the banks, the extent to which banks contributed to economic development remains to be considered.

Banks and Economic Development

The localized banks described here had, potentially, an important role to play in the development of local industry and, collectively, in national industrial performance. Arrangements for payment lubricate an economy. The argument that financial development promotes economic growth is one that has been more widely accepted than the view that finance follows enterprise.[76] The ability of joint-stock banks to raise capital from shareholders stimulated their growth in size and number, as witnessed by their mounting numbers in England and the relative decline of the private banks. Consequently, there was an increase in financial services to customers. As industry grew over the second quarter of the nineteenth century in England, JSBs were able to maintain and expand their position.

England experienced industrialization and economic growth from the mid-eighteenth century onward, although measurement of growth rates and productivity are notoriously contentious.[77] Nicholas Crafts and Knick Harley have provided estimates for British industrial output growth of 1.4 percent to 1.5 percent per year between 1770 and 1815, and 3.0 to 3.6 percent per year between 1815 and 1841. They assert that

[76] Valerie Bencivenga and Bruce D. Smith, "Financial Intermediation and Endogenous Growth," *Review of Economic Studies* 58 (Apr. 1991): 195–209; Robert G. King and Ross Levine, "Finance and Growth: Schumpeter May Be Right," *Quarterly Journal of Economics* 108, no. 3 (1993): 717–37; Ross Levine, "Financial Development and Economic Growth: Views and Agenda," *Journal of Economic Literature* 35, no. 2 (1997): 701–9; P. L. Rousseau and Richard Sylla, "Emerging Financial Markets and Early U.S. Growth," *Explorations in Economic History* 42, no. 1 (2005): 1–26.

[77] See Nicholas F. R. Crafts, "British Economic Growth, 1700–1850: Some Difficulties of Interpretation," *Explorations in Economic History* 24, no. 3 (1987): 177–99; Julian Hoppit, "Counting the Industrial Revolution," *Economic History Review* 43, no. 2 (1990): 173–93; R. V. Jackson, "Rates of Industrial Growth during the Industrial Revolution," *Economic History Review* 45, no. 1 (1992): 1–23; Maxine Berg and Pat Hudson, "Rehabilitating the Industrial Revolution," *Economic History Review* 45, no. 1 (1992): 24–50; Nicholas F. R. Crafts and C. Knick Harley, "Output Growth and the British Industrial Revolution: A Restatement of the Crafts-Harley View," *Economic History Review* 45, no. 4 (1992): 703–30.

Britain experienced a "long period of steady acceleration in the trend rate of industrial growth from the mid-eighteenth century through to the second quarter of the nineteenth."[78] JSBs contributed to this growth. The rise in the number of JSBs following the liberalizing legislation of 1826 coincided with increasing industrial output in England, potentially facilitating greater credit provision within the economy.[79] This article demonstrates that English banks provided funding in significant amounts and to a range of local businesses (not just "insiders"), findings that are corroborated elsewhere.[80] Thus, banks made a positive contribution to the economic health of England in the first half of the nineteenth century by providing credit, currency, and bill-discounting services. Such financial intermediation oiled the wheels of trade and industry and allowed the movement of funds from investors to borrowers more efficiently, and with less risk, than individual actors could achieve.

In the case of New England, Lamoreaux argues that the small-scale banks established to fund the enterprises of bank directors and their families may have produced an imperfect system, but it was one that worked well for the regional economy in the early nineteenth century. "Bank funds were . . . plowed back into economic development by means of the directors' diversified investments in manufacturing, transportation, commerce, and real estate."[81] Although banks discriminated against outsiders, low barriers to entry enabled many kinship groups to establish their own banks and therefore to gain access to credit.[82] Purchasing bank shares allowed "ordinary savers to invest in the gains from economic development without exposing themselves to serious risk," while simultaneously providing "entrepreneurs with a mechanism they could use to tap the community's savings and channel the proceeds into economic development."[83] The early nineteenth century thus witnessed banking institutions in both New England and England that made positive contributions to their local economies and possessed close links to local industry and commerce.

Why did these two banking systems become so different by 1900, and what impact did this divergence have upon economic development?

[78] Crafts and Harley, "Output Growth and the British Industrial Revolution," 712–13.

[79] The establishment of JSBs occurred after the start of industrial growth in Britain (from 1826 onward), yet their formation coincided with a marked *increase* in industrial activity during the 1820s and 1830s, as measured by Crafts and Harley.

[80] Pat Hudson, *The Genesis of Industrial Capital: A Study of the West Riding Wool Textile Industry, c. 1750–1850* (Cambridge, U.K., 1986); Capie and Collins, "Industrial Lending"; Capie and Collins, "Banks, Industry and Finance"; Collins and Baker, *Commercial Banks and Industrial Finance in England, 1860–1913* (Oxford, 2005).

[81] Lamoreaux, *Insider Lending*, 159.

[82] Ibid., 1, 4, 158.

[83] Ibid., 82–83.

In England, the merger movement gathered pace from the 1880s on, and by 1918 the "Big Five" joint-stock banks had emerged, now equipped with centralized London head offices and extensive branch systems. The emergence of this banking system was facilitated by light regulation: company law was relatively liberal, and there was little state intervention in the process. The system also transpired as a result of the ambitious managements of the large clearing banks. It was not until 1918, with the appointment of the Colwyn Committee, that the government examined concentration in the banking system, although no antitrust legislation followed the committee's investigation. Instead, bankers and the Treasury came to a private agreement, whereby approval was required for any subsequent amalgamations. There were no mergers between the "Big Five" until 1968, but there was little left in the way of major amalgamations to restrict.

Banking professionals formed a powerful lobby group in England and were successful in keeping state interference to a minimum. Britain had a long tradition of economic and political strength in financial services. Bank customers—those in trade and industry and members of the public—did not possess matching power. Shareholders did not use their influence to attempt to halt the amalgamation process, as they lacked the incentive to do so. They were usually rewarded handsomely in merger deals. Some in the banking profession had reservations about amalgamations, but they tended not to be found in influential positions in larger banks. Small-scale banks amalgamating with larger institutions were offered attractive deals, and their directors were often offered positions in the large-scale institutions, usually in respectable managerial posts.[84] Thus, banks in England were able to operate without stringent regulatory constraints or effective opposition from key stakeholders.

Was concentration in the English banking sector a positive development for national economic activity? The Colwyn Committee was formed to take up concerns about the lack of competition in banking and the loss of local connections by banks, both trends having implications for industrial lending. Financial historians have acknowledged that the smaller provincial banks that predominated before 1880 had been more flexible in their industrial lending than the post-1880s London branch banks, which operated a more formal and bureaucratic style of lending assessment.[85] Yet bankers of the national institutions argued that large-scale JSBs were more stable and could better serve the needs

[84] See Newton, "Change and Continuity."

[85] Philip L. Cottrell, *Industrial Finance, 1830–1914: The Finance and Organisation of Manufacturing Industry* (London, 1979), 236–44; Holmes and Green, *Midland*, 109–12; Frederick Lavington, *The English Capital Market* (London, 1921; reissued New York, 1968), 143; Newton, "Trust and Virtue."

of expansive modern industry; they justified the loss of local flexibility by citing the need to tighten up excessively "liberal" lending practices.[86]

The emergence of nationally based banks transformed the banking system of England from "relationship banking"—underpinned by close personal monitoring of clients by bank directors embedded in their local business milieu—toward "transaction banking," characterized by bureaucratic and centralized decision-making, short-term loans, formal screening and monitoring processes, and an emphasis on collateral security.[87] This shift brought tighter controls on lending to trade and industry and had an adverse effect upon economic activity. By 1900, banks were no longer run by businessmen who had the interests of industry at heart, but, rather, by professional bankers operating within large-scale systematized and bureaucratic financial institutions.

By the 1920s, there existed a tightly cartelized English banking system, preserving high barriers to entry, imposing restrictive lending criteria, and inflicting high costs on borrowers. The system was widely believed to have restricted lending to small- and medium-sized firms, a constraint that became known as the "Macmillan Gap." The banking system was stable, which had a positive impact upon the broader economy, but was ultimately conservative in its lending to domestic trade and industry and therefore detrimental to economic progress.[88]

In New England, the structure of banking did not change until the late 1890s. The number of banks in the region increased from 505 in 1860 to 724 in 1895. Lamoreaux argues that there was little restructuring in New England banking as the interests of bank officers and stockholders diverged. Directors were opposed to change or amalgamation for fear of losing their positions and, especially, their access to bank credit and prestige. Stockholders did not actively participate in corporate governance: they were widely dispersed, stockholders' meetings were poorly attended, and directors were unlikely to vote themselves out of office. In this system, bank directors held the balance of power. In Boston, only after years of declining stock yields and the intervention of savings institutions—significant stockholders—did large-scale mergers take place. The bank directors and officers involved objected vehemently. Ultimately, the savings institutions, as majority stockholders, pushed

[86] For a summary of these arguments, see Lucy A. Newton, "Government, the Banks and Industry in Interwar Britain," in *Business and Politics in Europe, 1900–1970*, ed. Terry Gourvish (Cambridge, U.K., 2003), 145–68.

[87] Collins and Baker, *Commercial Banks*, ch. 3; Newton, "Trust and Virtue," 182–83; Richard S. Sayers, *Lloyds Bank in the History of English Banking* (Oxford, 1957), 271; Cottrell, *Industrial Finance*, 236–44.

[88] Michael Collins and Mae Baker, "English Commercial Bank Liquidity, 1860–1913," *Accounting, Business and Financial History* 11, no. 2 (2001): 171–91; Peter M. Scott and L. A. Newton, "Jealous Monopolists? British Banks and Responses to the Macmillan Gap during the 1930s," *Enterprise and Society* 8 (Dec. 2007): 881–919.

mergers though. The number of banks in Boston declined from sixty in 1895 to twenty-three in 1910, while at the same time they grew in size.[89]

In Rhode Island, acquisitions by the Industrial Trust Company brought about a more harmonious series of mergers from 1899 onward. Takeovers by the bank occurred with the cooperation of bank officers and directors. The main difference from the Boston case was that the charter of the Industrial permitted branch banking, which meant that, when smaller banks were acquired, they were not closed but became branches. Staffs and directors were retained to run the branches, often with significant autonomy. The leader of the Industrial also held a key position in the Republican Party, the dominant political party in Rhode Island, and thus was able to gain legislative permission to establish branch banks. There was no such champion with the same degree of political power elsewhere in the United States. Small-scale bankers held sway and were able to fight off any attempts to introduce branch banking. Not until 1918 was the law altered to permit national banks to establish branches, and even then branching was only permitted in states that had legalized such a method for their own institutions.[90]

Movement toward concentration therefore started much later in New England than in England and reached a different level. Despite some mergers, banking in New England did not achieve the degree of concentration that prevailed in England. The main differences between the cases were the legislative framework and the influence of various stakeholders. In England, company law was relatively liberal, and those in charge of large-scale JSBs held economic and political power that was not matched by their customers or shareholders. In contrast, legislation in the United States severely restricted branch banking, and therefore the framework for the development of larger-scale banking was not in place. In addition, the U.S. banking system was fragmented, and bankers did not unite nationally to effect changes in legislation.

What was the impact of changes in New England upon economic development? By the late nineteenth century, banks were specializing in short-term commercial lending, a trend that continued into the next century, making it harder for them to satisfy the borrowing requirements of manufacturing ventures. Local businessmen no longer ran these institutions for their own ends; rather, professional bankers were in charge, and insider lending declined. This arrangement distanced bankers from funding economic growth and may have made it more difficult for firms to gain access to finance. Banks were no longer intimately involved in the businesses of their borrowers. Specialization in short-term commercial lending had "a detrimental effect on economic

[89] Lamoreaux, *Insider Lending*, 133–42.
[90] Ibid., 139–41.

development in the region."[91] Their directors appear to have been following a model closer to transaction than to relationship banking. Lamoreaux criticizes these banks for their conservatism, in the same way that English banks have been condemned for this trait. She contemplates that bankers may also have contributed to the region's specialization of industrial activity, which ultimately damaged its long-term economic performance. Her view echoes the condemnation of bankers, voiced by other historians, for their refusal to take a more active part in the restructuring of British industry, particularly during the interwar years.[92] Meanwhile, Boston capitalists managed to find attractive investment opportunities outside New England, leaving their banks behind.[93]

Banks in England and New England looked and behaved in similar ways for much of the nineteenth century, despite dissimilar legal frameworks and differences in the preponderance of insider lending. The banks on each side of the Atlantic were embedded in local business communities and played a strong and supportive role in providing credit and payment facilities to local businesses. As the century progressed, the contrast between the two sets of banks became more pronounced: New England maintained unit banking, whereas banking in England became concentrated. Yet the impact of the transformations upon the economic contribution of banks appears to have been similar. By the start of the twentieth century, neither set of banks was serving its manufacturing sector well, a factor that coincided with the relative slowdown of manufacturing activity in both New England and England. It is impossible to measure the extent to which the banks contributed to this deceleration, but their increasing "distance" from regional economic activity must have removed them, to some degree, from an intimate awareness of the economies they serviced and therefore reduced their sensitivity to the needs of local businesses.

Conclusions

Both English joint-stock banks and New England banks, despite operating in separate countries under different legislative frameworks, were remarkably similar up to the 1860s. They both operated on a localized, small-scale level that served the interests of their founders and provided credit to their own directors and shareholders. Yet, at the end of the nineteenth century, the two banking systems diverged, and, by the early twentieth century, they were radically different.

[91] Ibid., 105, 154, 155.

[92] For example, see James H. Bamberg, "The Rationalization of the British Cotton Industry in the Interwar Years," *Textile History* 19, no. 1 (1988): 83–102.

[93] Temin, *Engines of Enterprise*, ch. 4; and Johnson and Supple, *Boston Capitalists*.

At the start of the nineteenth century, both sets of banks were similar, as they were rooted in local economies in early stages of their economic development and, despite differences in legislation, did not enter extensively into branch banking. At the time, legislation prevented New England banks from establishing branches. Joint-stock banks in England usually chose not to undertake more than a limited number of local branches, due to the risks inherent in extending their operations outside their immediate geographic area. Local operation minimized risks by permitting the efficient use of local business and kinship networks for obtaining information about customers. This was an essential factor for financial intermediaries when communication and transport were still limited. In terms of demand, most businesses were small scale, and therefore banks could match their financial requirements.

JSBs and New England banks, through their managements, shareholders and customers, were intrinsically involved in local industry and commerce during the first half of the nineteenth century. These institutions extended the credit and payment mechanisms to local businesses that they required. They were vital to regional, and therefore national, economic health, as well as to the overall development of domestic financial markets.

By the end of the nineteenth century, the banking systems in England and New England had developed very different structures. The former region experienced high levels of concentration; the latter remained populated by unit banks that opened few branches. The two systems were formed as a result of both the different legislative frameworks in which they functioned and the power of banks and bankers, relative to other stakeholders, to determine these systems. Yet, despite these differences, the implications for industrial lending and economic development were similar. By the start of the twentieth century, each banking system had become more distant from their business customers and, consequently, from regional economic activity. As both sets of banks grew more professional and bureaucratic, they became removed from local business networks, leading them to adopt a conservative approach to lending focused upon liquidity. Lending was short-term, and decisions about lending were taken by professional bankers, rather than by businessmen rooted in local economies. The interests of banks and local industry diverged. Thus, the structures of banking systems in England and New England were very different by the start of the twentieth century, yet the behavior of bankers and the management systems in which they operated was similar. The paths taken by banks in these two case studies may have diverged by 1900, but their negative impacts upon economic development appear to have been much alike.