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How the West India Trade Fostered Last Resort Lending by the Bank of England

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Introduction

To what extent did the gains from the colonial slavery trade benefit early industrialisation in Britain? In the early modern period (or in the period of between late 17th and 18th centuries) the slave trade was the linchpin of Britain's Atlantic trade and there is an ongoing debate over whether the colonial slave trade played a significant exogenous role in Britain's early Industrialisation, or indeed whether it played any role at all. As early as 1944, Eric Williams made several important and controversial claims connecting colonial slavery to Britain's early industrialisation in *Capitalism and Slavery*.[1] Amongst his other claims, his argument that the profits obtained in the African slave trade provided one of the main channels of English capital accumulation which financed the industrial revolution has continued to inspire many subsequent researchers and has also been the subject of criticism.[2] His critics have questioned this view from mainly two points: That the profits of slave trade were not quantitatively large enough to have an impact on Britain's macro economy and that the need for large fixed capital investment was limited for the embryonic industries of eighteenth century Britain.[3]

More recently, there is a growing body of scholarship in economic history emphasising the positive link between capital and wealth accumulation from slavery and slave economy and its role in financing economic growth in Britain. Whether referring to Williams' position implicitly or explicitly, this recent literature is informed by the new knowledge made available since the time of Williams and his critics; that it was working (circulating) capital rather than fixed capital that mattered most to early businessmen in Britain,[4] and that slavery and the slave economy was

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[1] Williams (1944). For recent assessment of William's theses on slave trade and slavery and its connection with Britain's industrialisation, see Inikori (2002), pp.1-18, Morgan (2000), Hall *et al* (2014). For the ongoing debates over the claims made by William in the North American context, see Olmstead and Rhodes (2018) and Wright (2019).

[2] Williams wrote: '… the profits obtained [in African slave trade] provided one of the main streams of that accumulation of capital in England which financed the industrial revolution.' Williams (1944), p.52.

[3] On the debate over the Williams thesis, see Inikori (2002) and Hall *et al* (2014).

[4] Hudson (1990)

part of much wider nexus of geographies and organisations than Williams conceived. The methodology that much of the research in these literatures has taken is based on well documented case studies using a broader concept of slave economy. There is an abundance of case studies illustrating regional and sectoral wealth transfers from the slave economy into new industries and institutions in industrialising Britain that transformed the scale of production, shipping, insurance, marketing as well as port-city development in Britain.[5]

Banking in 18th-19th century Britain is the field on which this paper focuses to argue for a formative impact of the slave-based economy. As wealthy members of society, it was often the case that founders of early banks originating from the mercantile community engaged in the slave trade or the colonial trade especially in London and port cities like Bristol and Liverpool in the 18th century. Thanks to the latest research by the Legacy of the British Slavery ('LBS') group, numerous examples of wealth accumulation from the slave trade invested into banking in both London City and beyond are being discovered and it is now known that this connection of banking with slavery-based wealth was evident not only in the late seventeenth and eighteenth centuries but also into the early nineteenth century.[6]

The importance of slavery and the slave economy has also been linked to the development of domestic credit markets in the 18th century. Due to the long distances involved, shipment and remittance collection took a long time to reach merchants in British ports, and as a result credit was crucially important to British merchants involved in the trade. How a small number of reputable acceptance houses established dominance in financing the West India bills, the bills drawn on London that financed the West India trade, is an important aspect of London's emergence as the centre of credit markets.[7] Moreover, the demand for financing of the bills of exchange in the provincial regions engaged in supplying goods to the West India markets and more generally in the growing Atlantic markets may have promoted the integration of provincial and London money markets.[8]

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[5] Zahedieh (2010), Hall et al (2014)

[6] Legacies of British Slave-ownership project (https://www.ucl.ac.uk/lbs/)
Draper has shown how former slave owners abandoned their engagement with the sugar economy and moved their investment elsewhere after the Emancipation using the compensation money to move into a variety of other enterprises from railway construction to maritime insurance and banking. Draper (2009), Hall *et al* (2014).

[7] Sheridan (1958)

[8] Hudson (2014)

Despite the growing evidence linking both the credit demands of the West Indies trade and the wealth generated by the trade to the British financial sector, the empirical analysis as to the degree in which the West India finance played a role in the development or evolution of banking business and practice in Britain is still only developing.[9] This is largely due to the paucity and technical difficulties in dealing with data on 18th century banks. Empirical case studies are currently fragmentary which has prevented the formation of a general judgement on how the West India trade played a role in the development of London banking or more broadly in British banking. This paper aims to fill the gap by offering evidence on a particular and important financial institution in British banking, the Bank of England.

This paper finds evidence of the importance of the West Indies trade to the development of British banking in an unexpected source, in the Court of Director's meeting minutes of the Bank of England, particularly concerning the private sector. These records demonstrate that the Bank was sufficiently concerned about the effects of West India merchant bankruptcies on the banking system through the financial crises of 1790s, that it had developed a series of lending procedures in order to support the West India merchants. Once these lending techniques were established in aid of the West India merchants, they were applied to last resort lending during the crises of 1810, 1816 and 1825. The paper's main claim is that the techniques that the Bank would use as a lender-of-last-resort – one of the cornerstones of the British financial system that supported industrialization – were initially developed to support the merchants who financed the slave trade. This paper focuses attention on the City bankers, who provided financial services to the commercial mercantile community. This was the form of banking that was actively supported throughout this period by the discount facilities of the Bank of England, which was arguably already acting as a lender of last resort through the latter years of the eighteenth century.[10] Over the period of our study there was significant evolution in the commercial banking system. As Clapham observes, in the middle years of the 18th century the Bank of England discounted a substantial volume of bills of exchange for manufacturers and traders, but by the early decades of the 19th century the Bank was already a bankers' bank, discounting mostly for merchant bankers and financial professionals.[11]

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[9] Ishizu (2013)

[10] Lovell (1957), James (2012), Kosmetatos (2018).

[11] Clapham (1945): One explanation for this transformation is that business increased so dramatically after the Restriction in 1797, that the Out-Tellers, who collected on bills that were due, were carrying significant quantities of cash. In order to protect these Bank employees from the hazards of traipsing throughout London with bags of cash, the Bank adopted a policy in 1805 that in order to be discountable, a bill must be accepted payable at a banker. C.D. Feb 7

The primary sources for the loans discussed in this paper are the volumes of meeting minutes kept by the Bank of England's Court of Directors spanning the dates from December 1787 to April 1823. The minutes document the business transacted by the Directors at their weekly meetings, as well as any special meetings that were called. The entries in the meeting minutes are particularly detailed from the time of the Suspension of Cash Payments in 1797.[12] The minutes are contemporaneously indexed, and the principal index entry relied on for this paper is labelled 'Loans.' Relying on the indices to the minutes means that loans may be omitted from our data because of an error on the part of the clerk who created the index.[13] However, because such errors are apparently rare, the minutes allow us to have a fairly comprehensive view up until February 1811 of the private sector lending of the Bank that did not take place through the discount window, or in other words of extraordinary private lending. In February 1811 a formal policy for such lending outside the discount window was adopted.[14] This rich source has been studied by previous scholars such as John Clapham and Frank Fetter in their studies of the Bank of England, but the scale of the loans made to the West India merchants by the Bank largely escaped their notice. Indeed, it is only possible now to identify the Bank's borrowers as West India merchants because of the existence of the Legacies of British Slave Ownership searchable database and other powerful search engines.

Before detailing the Bank's loans to West India merchants, it is important to observe that as a percentage of the Bank's loans to private individuals, these loans are for the most part negligible. Over the relevant period the average sum outstanding in the form of discounts ranges from £5 million in 1797 to more than £21 million in 1810. As a result, the only lending studied in this paper that was on a scale that can be measured against the Bank's discount business was the initial nine-month loan organized in 1799 by the West India merchants' committee of £1.5 million. This loan (or more accurately series of loans) was apparently included in the discounts outstanding and accounted for a little over 20% of the discounts at the time. Even though the lending studied here is not quantitatively important, we can trace a steady evolution of the Bank's lending policy that culminated in formal procedures for emergency lending. Thus, the qualitative implications of this lending for the Bank's ability to act as a lender of last resort are very significant.

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[12] The minutes from 1797 include copies of letters presented at the meetings, reports from committees created to study and resolve issues, and sometimes competing resolution proposals that provide evidence of debates that took place at the meetings.
[13] Two such omissions are noted in the footnotes to Table 1.
[14] Future work will expand this investigation to include the minutes of the Committee of Treasury, which particularly after 1811 likely includes further details on the Bank's lending to the private sector.

Section 1 of the paper discusses the structure of the West India trade, the demand for credit to support it, and the finance of West India bills. Section 2 discusses the Bank of England's role in the crises of 1793 and 1799. Section 3 explores the extraordinary loans that were extended to West India merchants after the 1799 crisis. Section 4 details how this experience shaped formal procedures that were adopted in February 1811 for emergency lending beyond the standard discount policy. Section 5 concludes.

1. Financing the West India Trade: Bills of Exchange and Commission Houses in London

British colonial plantations were first established on the Caribbean islands in the mid seventeenth century and continued to grow until the abolition of the slave trade in 1807. The Caribbean sugar economy was large. Contemporary planters reckoned that the value of the British Caribbean islands amounted to as much as 70 million pounds in 1789 and annual profits from the sugar plantation cultivation up to 1.7 million pounds in 1770.[15] In the original form of the Atlantic triangle trade which lasted through the mid-eighteenth century, slave merchants would head to West Africa where they purchased slaves from local traders in exchange for beads, cotton clothes and cowry shells and, later, British manufactured goods.[16] They would then rely on slave factors in the West Indies to sell the slaves to planters, receiving payment in colonial produce such as sugar, together with some specie and bills of exchange. Finally, the cargo of colonial produce and the combined payment media would be shipped home. This was the original form of the triangle trade.

As consumer demand for sugar and other colonial produce grew in the mid eighteenth century, distinct designs for ships were invented specifically for transporting slaves to the West Indies and for transporting sugar to Britain. By then the original triangle trade had transformed itself into the slave trade that operated between Britain, West Africa and the West Indies, and the sugar trade that ran between Britain and the West Indies. Under the new system, a slave ship would disembark slaves in the West Indies into the hands of a slave factor and return to Britain carrying bills of exchange as payment for slaves. That is, bills of exchange replaced sugar as the

[15] Morgan (2000).
[16] Most slave merchants stayed in Britain as their chief business concern was the management of the voyage although some merchants occasionally travelled on voyages. They did not usually own the ships that carried their cargo. Instead they spread the risks of shipping by owning ships in partnerships so each merchant would not lose his entire investment when a ship capsized.

principal means of payment in this trade. To settle the debts between the parties between Britain and the West Indies, a small number of reputable merchants' houses came to specialise in the Wet India trade and established dominance in this trade by accepting final responsibility for these bills that were presented in Britain for the sale of slave in the colony.[17] These houses were commission houses and known as the West Indies merchants in London as well as in provincial port cities such as Liverpool. Some were forerunners of the specialised merchants' banks of the nineteenth century.[18]

The commission houses financed two types of bills of exchange that were typically required to settle the sale of a slave in the West Indies trade, one drawn by a factor and the other issued by a planter.[19] The first type of bills were drawn by a slave factor on a commission house in London to pay the slave merchant. Although factors were only intermediaries between slave merchants and planers, they were fully liable on the bills they drew. Many slave merchants preferred bills drawn by slave factors who were in partnership with a London commission house agent over the bills drawn by the planters, because the factors' bills were both secure and shorter-term, paying out more quickly than a planter's bill.[20] The commission house in London would accept the bill by endorsing it, and, as the acceptor, would pay the stated amount of money to the payee or bearer of the bill on maturity. The agent charged a commission in exchange for bearing the risk related to the bill. The second type of bills were issued by the planter and ultimately served to clear the debt of the first type of bill. The commission agents were engaged by sugar plantation owners to manage the shipping and sale of their sugar in the British market according to the terms of a commission agreement.[21] In this way, the commission houses combined the commission business and wholesale sugar merchant business. The receipts from the sale of the sugar were credited to the planter's account with the commission house, and the planter was able to draw a bill of exchange against this account. Such a bill functioned as an instruction directing the commission houses to clear the debt of the first bill using the receipts from the sale of the sugar on the planter's behalf.

[17] Sheridan (1958), pp.256-60.; Checkland (1957-8, 1958).
[18] Chapman (1992).
[19] On transactions using bills of exchange between Britain and the Caribbean colonies, see Sheridan (1958), Price (1980), Morgan (2005), and Nagasawa (2012).
[20] Sheridan (1958), p.261. Presumably this was possible in part because of the factors' liability on the bills and the fact that they bore some portion of the risks of maturity transformation that were taking place in the trade.
[21] The commission agreement would specify the various expenses (cargo charter fees, warehouse fees, customs, insurance fees etc) and commission charges (0.5 % for bill acceptance fees, and 2.5 % for sugar sales agent fees) that would be deducted from the receipts generated by the sale of the sugar. The agent also offered various services to the planters: the provision and shipment of tools, daily items, and luxury items for the plantation, recruiting and training of the white clerks to work on the plantation, etc. Sheridan (1958), p.262.

Both types of bills were separately issued and sent to the commission houses in London and settled by them. In return, the commission houses received commission from the acceptance of bills drawn to pay for the purchase of slaves as well as from the handling of the plantation sugar in Britain. These commission houses, who were called West Indies merchants, were able to satisfy both the colonial planters who needed relatively longer-term credit when purchasing slaves in the West Indies[22] and slave merchants who sought payment for the slaves that was both reliable and quick. Using these two types of instruments, all the transactions in the Caribbean sugar/slave trade could be settled using bills of exchange.

These bills arising from the West India trade (West India bills) may have played an important role in expanding the types of assets available as investments for the financiers and investors in the City in the eighteenth century. From the early eighteenth century, the conventional outlets of financial investment in the London financial market were comprised of long-term loans: public debt and loans to select chartered companies, such as the East India Company, the South Sea Company, and the Hudson Bay Company, and to some public utilities. Thus, while a market in short-term domestic and foreign bills operated throughout the eighteenth century, through the first half of the century its importance as a financial outlet was limited. In the second half of the century the West India trade, largely financed by bills that provided circulating capital for the purchase of slaves, grew to make up a significant part of the commercial paper circulating in the London money market.[23] According to Pressnell, up until the expansion of domestic trade in the 1780s, inland bills that originated in domestic trade were scarce in the provincial areas. As a result, many country bankers, emerging in this era in great numbers across the country, were investing in bills that originated in overseas trade. Indeed, even after the circulation of inland bills increased, West India bills continued to be regarded by bankers as good investments, and would be so regarded well into the 19th century.[24]

The challenge for the newly emerging country bankers was to find investments that were appropriate given the short-term of the banks' liabilities, which took the form of both bank notes and agreed credit lines extended to account holders. Bills of exchange and other forms of commercial paper were popular investments for bankers due to their liquidity. Bills were negotiable instruments and therefore usually liquid or semi-liquid assets. The bills that were most

[22] The duration of the West India bills were usually between 3 months to 36 months. Planters could not realise profit until sugar was sold in Europe.
[23] Checkland (1958), p.461.
[24] Pressnell (1956), pp.435-6.

liquid and could circulate as easily as bank notes were those that were discountable at the Bank of England. In practice this meant that the liquid bills had two months or less to run. Longer bills were negotiable and thus semi- liquid but could not circulate with the same ease. And the longest bills, such as West India bills of 24 or 36 months were relatively illiquid.

Even the 36-month bills were, however, supported by the fact that the London money market was a discount market. This meant that these bills could only be circulated by endorsement. That is, when the bill was negotiated, it was not a "true sale" for accounting purposes. Instead the discounter continued to be liable to pay the full value of the bill until it was finally paid – in the vast majority of cases by either the issuer or the acceptor, and not by the discounter. That is, everyone who negotiated a bill retained secondary, but not primary, liability on the bill. This discount market structure was extraordinarily effective at increasing the liquidity of commercial paper. This liquidity was, however, generated at the expense of creating a vast network of firms that were exposed whenever there was a bankruptcy.

Ideally, the bills that comprised most of a bank's asset portfolio would be trade bills of six months or less, since once a bill had two months or less to run it could typically be transferred to a bank's correspondent in London and discounted at the Bank of England. In practice, however, especially prior to the expansion of domestic trade in the 1780s, banks were proliferating faster than the safest investment opportunities, and bank often carried some liquidity risk in their portfolios. In this environment, West India bills, even though they were relatively risky investments because of their term, were also popular investments for banks.

Much of the debt owed by the West India planters to the West India merchants and slave factors was for the purchase of new capital in the form of slaves, their largest annual expense, and was for a term of 4 to 6 months or longer. Furthermore, when the sugar trade was flourishing, the merchants allowed the planters to go in even greater debt, sometimes as long as 12 to 36 months. However, when sugar prices fell at the end of the eighteenth century and in the early nineteenth century, the merchants demanded the money back to invest in other, more profitable opportunities. Planters were forced to give mortgages on their plantations and eventually the merchants effectively became absentee plantation owners. Many slave factors who had advanced credit to planters in earlier years were now reluctant to do so, and even the established system of drawing bills of exchange on absentee owners' accounts guaranteed by sugar shipments to

England was increasingly becoming difficult. Long dated West India bills in this situation were considered a risky segment of a bank's asset portfolio.

2. The Bank of England and the crises of 1793 and 1799

West Indian paper, due both to its term and the fact that it was held by country banks, was one of the most volatile elements in the financial markets, and this may well have contributed to expose the weakness of the English financial system in the financial crises that happened in 1793 and 1799.

The financial crisis of 1793 was described by Clapham as "the worst financial and commercial crisis that [the country] had yet known."[25] While contemporary critics often claimed that the crisis was caused by reckless country banks that failed or stopped payment during the crisis due to insufficient capital reserves, the cause of the crisis may well have been the overseas trade, particularly the West India and cotton trades, not the country banks. After the recovery had begun from the American Civil Wars in the late 1780s, the West India trade was enjoying a prosperous period with rising sugar prices through the early years of the 1790s. London West India merchants provided credit on a large scale and the volumes of West India bills and planters' bills held in England were increasing. The outbreak of the war against France came as a shock to Britain's overseas trade and the illiquidity in the financial market arose from bills that originated in overseas markets, especially the West India trade.

James Baillie and Co., a West India firm in London, fell into difficulty holding bills of nearly half a million pounds. This led to the collapse of the Liverpool bank, Charles Caldwell & Co. which was heavily involved in the finance of the West India trade, and the failure of Gregson & Co's bank followed. The failures in 1793 of several firms that had issued long bills had a contagion effect. Those holding the bills of West India or American merchants that had not failed could no longer circulate these bills on any terms. This freeze in the credit markets risked generating a new onslaught of failures. One of the first was Lane, Fraser & Son, a West India trading company, which collapsed when the Bank of England declined their bills for discounting. This was followed by failures of other West India merchants and bankers, Burton, Forbes & Gregory, and Caldwell & Co of Liverpool. In this crisis, many of the London West India merchants went into

[25] Clapham (1945), p. 259.

difficulties, 'they being all linked together in the bill way from £3 to 400,000 in circulation'.[26] Noting the geographical concentrations of bank failures during the crisis in Bristol and the surrounding west counties and in the Lancashire cotton trade region, Pressnell argued that the popularity of investments in West India bills and cotton bills arising from North America explains why bankruptcies were concentrated in the regions that were connected to these trades. In fact, in March 1793 West India bills accounted for 34% of the bills of bankrupt merchant firms, measured by value. American bills, including the cotton trade, accounted for another substantial portion of the defaulted bills.[27]

The financial crisis of 1793 was a major shock to the West India merchants in Liverpool as well as in London. When the merchants and bankers who were exposed to this problem sought help from the Bank of England, they were not turned away, but they were told that the only bills the Bank could discount for them were those with two months or less to run. For many this was no help at all. The chamber of commerce of Liverpool launched a joint petition to lobby for a parliamentary Act to support the mercantile community. This action was successful in convincing the government and the Bank of England to come up with a plan whereby the long bills could be exchanged for Exchequer Bills.[28] Because Exchequer Bills could be discounted at the Bank, this policy had the effect of supporting liquidity on the money market. In the event, less than half of the Exchequer Bills that had been authorized for this purpose were issued. In a classic denouement of a panic, as soon as abundant liquidity was made available, it was no longer needed.[29]

Six years later in 1799, the West India trade was again hit by a commercial crisis. Prior to the liquidity crisis in October, the credit supply to the West India merchants was buoyant due to heavy speculation in the Hamburg market.[30] But the enactment of the Slave Act in August which put in place permanent regulations concerning slave ships and docks had the effect of dampening public confidence.[31] While the problems cited by the West India merchants' committee refer to a lack of demand for their product, it seems more likely that unusual supply

[26] Pares (1950), p.357.
[27] Pressnell (1956), p.458, Checkland (1958).
[28] Bennett (2013).
[29] When the Government again issues such "commercial Exchequer Bills" in 1811, once again the West India merchants are implicated. Pressnell (1956), p. 468.
[30] Ragatz (1928).
[31] This law, 39 Geo. III c. 80, made permanent regulations governing slave ships, such as the requirement that decks be separated by 5 feet. Previously these regulations had been temporary, required annual renewal, and periodically lapsed.

was being driven by the forced selling of merchants who could not obtain the financing needed to store the goods they had brought to Europe. After all, public knowledge that the legislation had weakened them financially could easily mean that it had become hard to find creditors who were willing to be exposed to them. This led to a sudden liquidity crisis in October and this time the Directors of the Bank of England voted to support the West India merchants with extraordinary loans which just six years earlier had been deemed impossible. The Court of Directors' minutes show that West India merchants received substantial advances: the aggregate loan to the West India merchants was £1.5 million for 6 months, and was then extended for another 3 months. The Bank's intervention was effective, as just a month after the details of the Bank's support were worked through, the price of coffee had increased by 33%[32]: in the absence of the Bank's support, many West India merchants would probably have had to dump their merchandise on the market. Apparently the loan was paid up by July 1 1800, because we hear no more about it.

The move by the Bank's directors in 1799 to support the West India merchants marked a significant deviation from the Bank's lending policy. Prior to 1799, the Bank's lending to private individuals outside regular discount window lending was extremely limited, aside from two categories of clients: the state and chartered companies.[33] The Bank regularly supported issues of government debt by providing short term loans to the buyers, who could thus pay in instalments over the course of a few months. The Bank also had a handful of regular clients for term loans, such as the East India Company, the South Sea Company, and the Hudson Bay Company. But in 1799, the Bank had to act averting a crisis driven by the by the illiquidity of the West India firms that could easily have led to bankruptcies and set off a broader commercial crisis.

There were several circumstances that are likely to have played a role in this decision. The Bank could be sure from the experience of the 1793 crisis that insisting on following its regular lending rules would fail to provide the necessary assistance. In addition, presumably there were reasons why it was impossible for the government to step in as it had in 1793, whether due to the politics of issuing more debt, to the politics of rescuing an industry it had just destabilized by regulation, or to a need to focus on the war effort. Or perhaps the Bank's Court of Directors simply recognized that under the circumstances of the suspension the distinction

[32] As is indicated by comparing the prices quoted in C.D. Nov 7 1799 and C.D. Dec 19 1799
[33] An exception that proves the rule was a £6,000 loan to the Lord Mayor of London in 1793 because of the 'mischief' his bankruptcy could produce in a panic. Clapham (1945). I, p.261.

between a loan intermediated by government and a direct Bank loan was really just a matter of form and insisting upon maintaining it would create unnecessary complications.

Factors that would have pushed the Bank to avert such a crisis include: the knowledge from the 1793 experience that failures of West India merchants would have a broader effect on the banking system as a whole; the experience of the 1796 tight money policy that caused a bad recession and ended in the suspension, leading several directors to conclude that it was the Bank's duty to support all good commercial bills and to be fearful of the consequences of setting off another crisis (H.C. 1810); and the knowledge that in these early years of the suspension the Bank was in a very delicate position, and that it was essential to keep the merchants who were supporting the Bank by circulating its paper from panicking.

3. Extraordinary Lending by The Bank of England

The extraordinary lending to the West India merchants by the Bank of England in 1799 not only meant that the Bank widened its lending to private individuals, but also signified the development of new lending tools by the Bank. Firstly, the lending to the West India merchants in 1799 reflected the growing acceptability of accommodation paper. The significance of this fact can be understood by considering the nature of accommodation paper. In legal terms, a 'real bill' was a bill that originated in a genuine commercial transaction. In the early phase of circulation of bills of exchange, it was considered that the initial transaction made a bill negotiable and, if challenged, the holder of the bill who was seeking payment could be required to prove the original transaction. By contrast, an accommodation bill was a bill that was created as a simple loan or IOU. However, by 1791 a series of court decisions had transformed accommodation bills into negotiable instruments, by granting the holder of such a bill the right to payment if he could prove that he, not the original payee, had received the bill in a genuine commercial transaction. Within a decade, accommodation bills were already common, and in some cases were easily identifiable as accommodation bills.[34]

The growth of accommodation paper was facilitated by changes to the Bank of England's policy of discounting promissory notes. Bills and promissory notes differed in the number of signatories. Bills of exchange were drawn on a third party, *comparable in modern terminology to a bank*, and bore two promises to pay (signatories), that of the issuer and of the drawee (i.e. *the*

[34] Rogers (1995).

bank) who had accepted and signed the bill, in addition to that of the discounter. A promissory notes, by contrast, was not drawn on 'a bank' and thus had only one promise to pay in addition to that of the discounter. This made bills safer investments than promissory notes and more "real" instruments as being supervised by a third-party acceptor (i.e. a bank). When the Bank of England's policy of discounting promissory notes was established in 1723, it required that each note be read to the Court of Directors, before being approved for discount (C.D. Nov 7 1723). That is, when promissory notes were first discounted, they were not viewed as part of the ordinary course of business that was handled by the Governor, Deputy Governor, and Committee in Waiting, but as a special accommodation on the part of the Bank.

In 1764, the discount of promissory notes became part of the ordinary business of the Bank when a new policy was put in place whereby the Committee in Waiting together with the Governor or Deputy Governor reviewed all the notes submitted and divided them into three groups: i. some notes were disapproved and were not presented to the Court, ii. some were approved and "not [to] be read to the Court unless particularly desired," and iii. "dubious" notes or those that had been brought to the Bank by a Governor, Deputy Governor, or director of the Bank. Only the third category was read to the Court to determine whether the notes were to be discounted or not (C.D. April 12 1764). Then, through the early years of the Restriction period, the discount of promissory notes grew dramatically, so in early 1800 a Notes Committee was formed to assist the Committee in Waiting in discounting notes.

The Bank of England's official policy was to favour "legitimate" paper, and as a result a bill or note that was deemed accommodation paper when it was brought to the Bank could easily be rejected for that reason. On the other hand, the Bank sought in the early years of the Suspension to be very supportive of the commercial community, both to help trade recover from the recession that preceded the Suspension and because the Bank needed the merchants' support in order to keep Bank Notes in circulation. Thus, by the time the Discount Committee is meeting in 1804, it is very clear that the Bank is discounting accommodation paper and that promissory notes which now amount to almost 40% of the Bank's discounts frequently fall into this category. Thus, when the Bank chose to support the West India merchants in 1799 using accommodation paper – that is, a loan that was not based on a commercial transaction – it was both remarkable, and yet also a fairly obvious solution to the problem at hand.

A second major shift in the Bank's lending policy observed in 1799 was that the lending was based on a deposit of goods. The basic financing technique used to support the West India merchants in 1799 was to use two-month promissory notes that the Bank committed to roll over for the duration of the loan. The promissory note was to be made payable directly to the party being accommodated, who would endorse the note to the Bank, then security in goods needed to be deposited with the West India Merchants Committee, and a certificate attesting to the deposit submitted with the note (C.D. Oct 17 1799).[35]

This was almost certainly the first instance where the Bank lent against a deposit of goods[36] in lieu of one of the personal guarantees typically demanded by the Bank at the discount window. In the course of discussing the legal technicalities over the use of the goods as collateral, the West India Merchant Committee proposed that the (promissory) notes be secured by government bonds in lieu of goods. The Court of the Bank's directors agreed to this, as long as a certificate attesting to ownership of goods with a value in excess of the loan was submitted along with the note and the bonds. It was agreed that the bonds were posted as collateral via a transfer of title to the bonds into the names of the Governor, the Deputy Governor and another senior Bank director, and that the transfer was accompanied by an explicit right to sell the bonds if payment was not made on time. This method of lending is what in modern times is called a repurchase agreement (or repo for short), and this was almost certainly the first time the Bank made loans using such a method.

It should, however, be remembered that the Bank of England had a long history of making one type of collateralised loan: loans to support the issue of government debt. Since many purchases of government debt were paid in instalments over the course of a few months, the Bank would typically hold the bond on behalf of the purchaser until it was paid in full and the bond could be transferred to the purchaser's name. Based on the structure of the West India merchants' loans, one can infer that the bonds held by the Bank on behalf of the purchasers of government debt were likely held in the name of the Governor, Deputy Governor and another senior Bank director.

[35] The Bank also offers the more standard option of using a note with "two respectable parties in the quality of drawers and acceptors" in addition to the endorsement of the party being accommodated. Given the emphasis on collateral in later discussion, there is little reason to believe that this option was much used.
[36] The loans are secured on sugar at £30 per ton and on coffee at £100 per ton.

It is clear from the Minutes that the Bank distinguished these two types of loan collateralized by government debt, the repo and the purchase-instalment loan. When approving the West India merchants' loans, the Court added: "Resolved that in the opinion of this Court the loan of money upon note accompanied with a deposit of stock shall not be drawn into precedent" (C.D. Nov 7 1799). Despite these protestations, the precedent of lending on repo was clearly set.

The Bank's support of West India merchants continued for the next two decades. Table 1 (Appendix I) exhibits the loans made by the Bank spanning the years 1788 to 1822, as drawn from the Index entry "Loans" in the Minutes of the Court of Directors. Loans made to the East India Company, South Sea Company, and Hudson's Bay Company are omitted, as are loans made to support the issue of long-term government debt (which are classified in the Index under the name of the debt issue and not under the name of the borrower).

What is clear from the Table 1 is that in 1803 the Bank had outstanding sizeable loans extended for periods of a year or more to a variety of West India merchants. Furthermore, significant amounts remained outstanding through 1813. Such lending continued, though more sporadically, through at least 1820. Table 1 also shows that in the earliest years of the Bank's extraordinary lending the West India merchants were the only recipients of such long-term lending by the bank.[37]

The loan in June 1801 was made to Hibberts, Fuhr & Purrier. This loan was innovative because the Bank reduced the standard "two-name" security that it required on its loans to one-name security. In the case of the loans made in 1799, the Bank required both the security of government debt as collateral and that bills made payable to the borrowing merchant be negotiated by the merchant to the Bank. By this means, each loan had two forms of security in addition to the promise of the borrower: (i) the promise of the individual who wrote the bill payable to the borrower, and (ii) the government debt posted as collateral. That is, in 1799 the borrowers were allowed to replace one of the two names that typically secured a Bank loan with government debt posted as collateral. This, however, replaced only one of the names and borrowers were still required to provide the security of another payor on the loan. As was

[37] Of the four loans to individuals who were not West India Merchants on or before 1803, all are for terms of four months or less. The series of short-term loans to Messrs. Goldsmid from May 1802 through February 1804 were to a prominent financier of the Government, who was apparently being permitted to finance his purchases of Exchequer Bills on instalment. In less than two years the Bank puts a stop to this lending.

noted above, these bills that came into existence for the sole purpose of allowing the borrower to take a loan out from the Bank were called accommodation bills.

The loan in 1801 permitted Hibberts, Fuhr & Purrier to negotiate accommodation bills, just as was done in 1799, but did away with the requirement that the loan be supported with government debt collateral, too (C.D. June 25 1801). Thus, in 1801 the Bank was lending for a relatively long six-month term against accommodation paper only and required only one name in addition to the borrower to secure every pound of the loan. This procedure probably reflected a change in the Bank's general discount policy. By 1804 promissory notes – or one-name paper – had grown to be almost 40% of the Bank's discount business. That a significant fraction of these notes was accommodation paper was likely obvious to each director. Certainly, it was clear after the 1804 discount committee report. Presumably, because the Bank had become more comfortable both with accommodation paper and with this lower level of security, it was willing to extend these terms to Hibberts, Fuhr & Purrier despite the length of the loan the firm sought.

The next loan to a West India merchant was made in 1803 to John Willis & Co. This loan was especially noteworthy because the firm had already stopped payment. In fact, the Bank rejected the first application of loan in March based on that the firm's stoppage (C.D. March 17 1803) but the committee of the Willis & Co's creditors petitioned in April that they were convinced that the firm's capital well exceeded its obligations and that if the firm could stay in operation through 1804 it would overcome its difficulties. The creditors had raised £70,000 in outside funds that were committed for the full 18 months of the requested loan and had another list of promissory notes that in aggregate amount to £60,000. They stated that if the Bank would commit to discount and to renew this £60,000 of notes for the full 18 months, all the creditors would be better off than in a forced liquidation. In addition, the creditors would forbear pursuing their claims in court for 18 months. None of these creditors were seeking any security for their support of the firm, but instead left the firm's assets to the benefit of general creditors (C.D. April 7 1803).

This covenant in favour of the general creditors appears to have been added at the demand of the Bank. The Committee of Treasury's report to the Court recommending rejection of the March 17 loan application states:

> That the House of Messrs. Willis & Co. having actually suspended its payments, unless some certain securities consisting of eligible mortgages on estates in Jamaica can be conveyed to trustees for the benefit of the officers and crew of His Majesty's Fleet, the captors, and of the neutral claimants in appeal whose joint demands appears [sic] to amount to the sum of about four hundred thousand pounds currency, they cannot consistently with their duty to this house, the public, and the great mass of creditors of the House of Messrs. Willis & Co. recommend a compliance with the application (C.D. March 17 1803).

This together with the successful proposal indicates that the well-to-do creditors who were ready to support Willis & Co. were probably in their initial proposal seeking preferential treatment in the form of additional collateral for their support and that the Bank was unwilling to be party to such an action. Indeed, the April 7 application states expressly that in order to address concerns that have been raised over a "supposed preference" [38] small bills would be paid in full along with those that were essential to keep the firm in operation, and that the large bill holders would all "subscribe" at least half of what they were owed to keep Willis & Co. going.

This loan made to Willis & Co was remarkable for two reasons. First, the Bank was lending to a company that was effectively bankrupt. This was probably the first clearly documented case of such an action. While it is far from clear what motivated the Bank to intervene in this particular bankruptcy, the fact that the firm apparently had significant liabilities to the British Navy and that the West Indies formed one of the combat zones in the Napoleonic Wars make it possible that a government request lies behind this action.[39] Secondly, the Bank was very aware of its public responsibilities when engaging in this action and was effectively acting as a trustee for the general creditors, demanding that those who were not at the table negotiating with the Bank could be sure of getting terms no less than what they would get in a court supervised liquidation. This is yet another sign that at the start of the 19th century the Court of Directors understood that the Bank had duties to the public that went far beyond those of a typical private firm.[40]

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[38] Note that a "preference" is a term of art in bankruptcy referring to a payment made to one creditor that unfairly reduces the assets available for distribution to the rest of the creditors.

[39] Note that the second request indicates that it is the British Navy that has a claim on the firm, not just the individual officers and crew (C.D. April 7 1803)

[40] Note that the Bank ended up extending the loan once for 12 months (C.D. Oct 25 1804).

Six months later in September 1803, another loan was made to Donaldson and Glenny. The amount (£60,000) and the initial term (18 months) were the same as the previous loan to Willis & Co., and Donaldson and Glenny was, like Willis & Co, "about to be discontinued".[41] However, the security for the loan was better because the Bank was requested to discount bills, not promissory notes so there were three, rather than two, obligors on every pound of the debt (C.D. Sept 28 1803).

This loan was important for three reasons. First, the procedure of applying for this loan apparently formed the basis later in 1811 for a standard procedure that was developed for requesting extraordinary assistance from the Bank. In particular, Donaldson and Glenny requested that three other firms review its books and proffer to the Bank accounts attesting to the solvency of the firm. These investigating firms averred that in their judgment the loan requested, if granted for the time requested, would be adequate to "prevent any probability of disappointment or future embarrassment." (Of course, they also added that if the loan was not made, this would have serious consequences for many firms involved in the West India trade.) In addition, the investigating firms each proposed to act as securities for a portion of the Bank's loan. These elements: certification of solvency and of the sufficiency of the loan, as well as a requirement that the certifiers have "skin in the game" would in 1811 both be criteria for obtaining an extraordinary loan from the Bank.

Secondly, after determining that the firm's long-term assets were worth so much that its equity was almost £400,000, the investigating firms proposed that £300,000 in long-term securities be set aside "as a cover to such persons as might be disposed to stand forward with their credit to assist" Donaldson and Glenny's. Given that this loan would end up being a costly boondoggle for the Bank, one may perhaps be forgiven for wondering whether the creditors in this case learned from the experience of Willis & Co's creditors that setting aside collateral for creditors who assisted in keeping the concern going would only be acceptable to the Bank if the equity of the borrower exceeded the collateral. Valuation of long-term assets being then, as now, more a matter of art than science, it was easy to imagine that a

[41] Two more applications for loans from West India merchants were approved by the Court in 1803. Only the essential information on these loans is included in the minutes. Simpson & Davison received a loan of £40,000 for 12 months. Two renewals indicate that it was paid off after 30 months (C.D. Nov 10 1803, Nov 8 1804, Oct 24 1805). Lushingtons & Mavor obtained a loan of £20,000 for 12 months. Half is paid promptly, but the firm struggled for five more years to pay the remaining balance (C.D. Nov 17 1803, Sept 1 1808).

motivated creditor might have chosen to take a particularly optimistic view of the future value of Donaldson and Glenny's assets in order to obtain both a loan from the Bank and favourable terms for the existing creditors.

Finally, this loan offers a clue as to why the Bank of England was involved in supporting the West India merchants. Of the three firms that certified Donaldson and Glenny's solvency, one of the firms was Manning, Anderson & Bosanquet, a West India merchant firm, whose partners included a Bank of England director, William Manning, and a Bank Director's son, Charles Bosanquet.[42] It is very likely that, not only Manning, Anderson & Bosanquet, but also the other two certifying firms were Donaldson and Glenny's creditors. Presumably the self-interested approach of the certifiers taught the Bank a lesson: while half of this loan was paid off on time, it took four additional years for the Bank to collect the next quarter of the loan, and in October 1808 £15,000 was extended "without engaging for any specific time" (C.D. Oct 25 1804, Jan 23 1806, May 7 1807, Oct 20 1808). In 1811, £15,000 of Donaldson and Glenny's debt was still unpaid, and when the rules for making a request for extraordinary assistance are set forth, they state explicitly that the parties who certify to the solvency of the borrower, not only must act as a security for a portion of the Bank's loan, but also (i) cannot be creditors of the borrower, and (ii) cannot be the Governor, Deputy Governor or a director of the Bank.

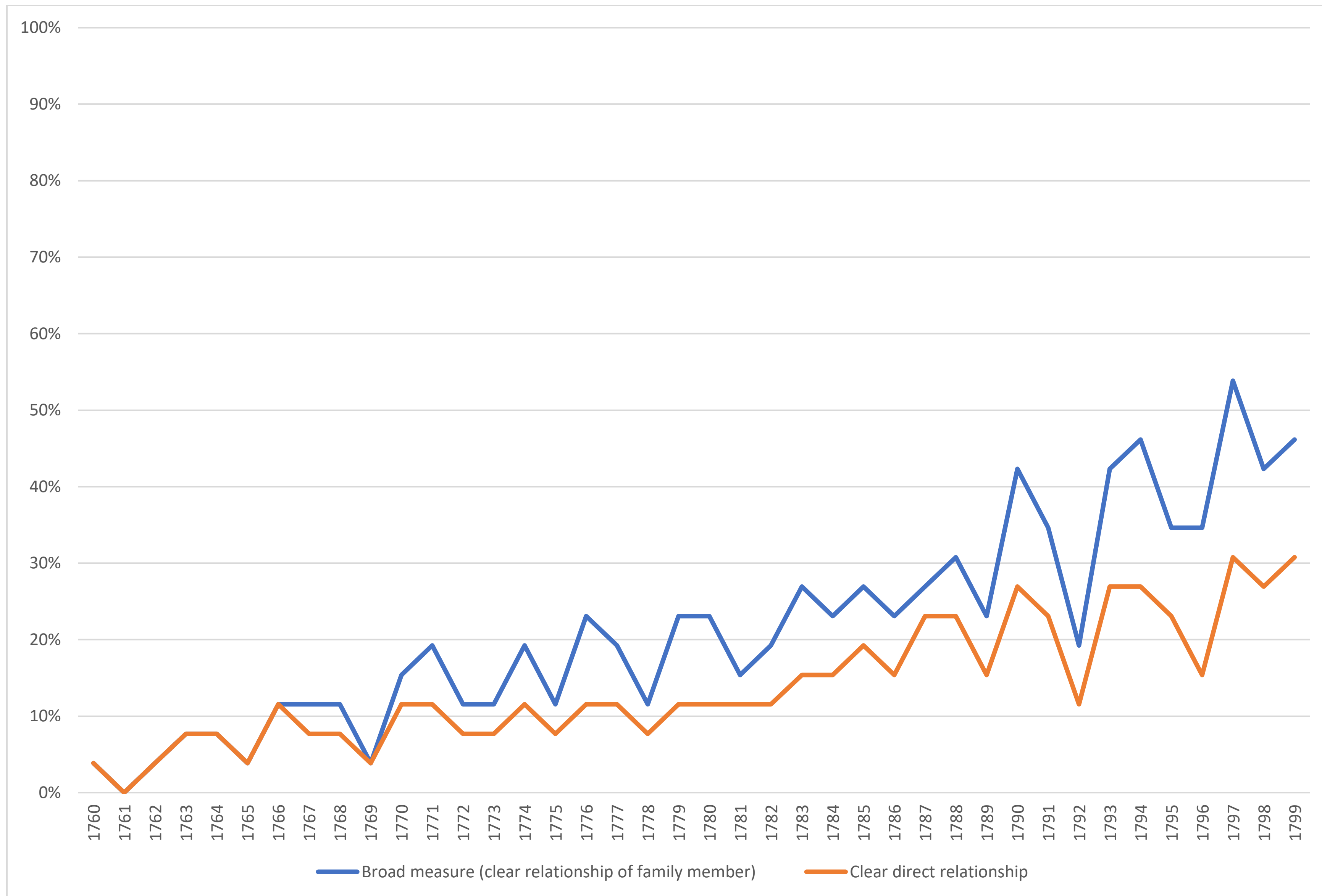
It has been implied in the recent literature that the Bank of England had a 'particular bias' amongst its directors towards West India merchants.[43] For example, Hall et al. noted that in 1801, of 26 directors, five were West India merchants and one was a major slave owner in Grenada, and that this tendency continued well into the mid and late nineteenth century.[44] In fact, the presence of West India merchants amongst the Bank directorship was already prominent in the late eighteenth century, as demonstrated in Chart 1. It shows that the share of West India merchants in the directorship of the Bank of England steadily increased from just 4% (one director) in 1760 to 30% in 1799.

[42] William Manning expanded his father's West India business to become one of the most eminent West India firms in the City. He became M.P. in 1790, became Deputy Governor of the Bank of England during the Bullion controversy in 1810 and Governor in 1812. Manning succeeded in venturing into the British territories in the Caribbean islands by acting as agent for St. Vincent and Grenada. Checkland (1958), p.464.

[43] Kynaston (2012), p.84.

[44] Hall et al (2014).

Chart 1: Share of Bank Directors and Governors classified as a West India Director



Source: Bank of England Court of Directors Annual Lists

Note:: The Directors who served from 1760 to 1800 have been identified as having a clear West Indies trading relationship or not having a clear relationship. This means that there may be directors who have such a relationship, but have not yet been identified as such. The source is the digitized list from 1694 and 1838 of "Directors Annual Lists" available here: https://www.bankofengland.co.uk/-/media/boe/files/archive/directors-annual-lists/1694-1908-book1.pdf?la=en&hash=EF0DC0C0263CF81C4FFD93F5A6465B9CD9CA7FCD (Bank of England Archive M5/436). The list of directors from 1760 to 1830 and their years of service has been compiled using these lists. By laws of the Bank permitted only 16 of the annual Court of 22 directors to return to the Court the next year (Clapham 1945: I, 76). As a result, there are distinct patterns in the typical service of a Director. First, anyone who served as Governor almost always served on the Court continuously thereafter until retirement. Second, the directors who have not served as Governor typically take every third year off in the early years of their service and every fourth year off as they become more experienced. Relying on the Legacies of British Slave-ownership database, the ONDB and the History of Parliament online as well as additional sources listed below, the Directors and their relatives with property ownership in the West Indies or a clear mercantile relationship to the West Indies trade can be classified as a West Indies Director. The West Indies Directors were then divided into one of six categories:

- Family has clear connections to the West Indies: the individual or his father, uncle, or brother either has a clear mercantile relationship with the WI or owns property in the WI.
  Edward Payne (1756-1794); Richard Neave (1731-1814); Lyonel Lyde (1724 -1791); William Snell (d. 1789); Thomas Boddington (1735-1831); Beeston Long (d. 1820); John Whitmore, jun. (1750-1826); Peter Isaac Thellusson (1761-1808); William Manning, jun. (1763-1835); George Dorrien (d. 1835); Nathaniel Bogle French (1758-1816); Thomas Amyand (d. 1805); Ebenezer Maitland (?).
- Clear next generation WI connections: the individual's son, nephew, or son-in-law either has a clear mercantile relationship with the WI or owns property in the WI
  Samuel Bosanquet (1744-1806); Thomas Raikes (1741-1814).
- Clear WI connection, but of a brother in law, cousin, or more distant relation
  William Halhed (1722-1786); John Puget (d. 1805); Jeremiah Harman (1763-1844); Charles Pole (1757-1830).
- WI involvement appears at one remove (e.g. mortgagor, executor)
  John Pearse (1759-1836).
- Clear connections post-date the year in question (future grandfather or future father in law to WI connected family) Note that for this category only, I have often not established, but interpolated the relationship.
  James Sperling; John Cornwall; William Bowden.
- No clear connection. Note that there are many names similar to those in the LBS. In the absence of confirmatory evidence, I did not assume a WI relationship.

The broad measure of WID includes the first four categories. Note that John Whitmore, jun is classified as a belonging to a Clear WID family only because he presented the petition from the West Indies merchants for London docks in Parliament in 1796. Otherwise he would be classified as a Clear next generation WID due to his sons' property ownership in the LBS. Additional sources that were used for identifying WID are:

- Edward Payne: Private Banking in Europe: Rise, Retreat, and Resurgence by Youssef Cassis, Philip L. Cottrell p. 48
- William Bowden: Strangers Within the Realm: Cultural Margins of the First British Empire by Bernard Bailyn, Philip D. Morgan p. 425.
- Lyonel Lyde: http://www.danbyrnes.com.au/blackheath/thebc8.htm Kellock, `*London Merchants*', p. 114, and London debt claimants of 1790 appendix, p. 133.
- William Halhed: 1st Cousin of Richard Halhed: http://aparcelofribbons.co.uk/tag/richard-halhed/
- William Snell: The Business of Empire: The East India Company and Imperial Britain, 1756–1833 by H. V. Bowen, Cambridge University Press, Dec 22, 2005 p. 128
- Thomas Raikes: pedigree Pedigree of the family of Raikes, formerly of Kingston-upon-Hull (originally of Kelfield and Cawood, near Selby, Yorkshire); by Foster, Joseph, 1844-1905. 1n https://archive.org/details/pedigreeoffamily00fost/page/n7
- Peter Isaac Thellusson: Kenneth Cozens, 'Peter Thellusson - Bank of England Director & London Sugar Refiner' available at http://www.academia.edu/10873782/Peter_Thellusson_-_Bank_of_England_Director_and_London_Sugar_Refiner
- John Puget: Horsefield Bank of England as Mentor. HER 1949.
- George Dorrien: History of Hertfordshire, Volume 3 by John Edwin Cussans, E. P. Publishing, 1881, p. 61
- Thomas Amyand: miscellanea genealogica et heraldica, 1884, p. 181; Protestant Exiles from France, Chiefly in the Reign of Louis XIV: Or, The Huguenot Refugees and Their Descendants in Great Britain and Ireland, Volume 2 by Agnew, David Carnegie A., Turnbull & Spears, 1886, p. 496.

As Howe argued, the Bank directors, irrespective of their connection with West India trade, were themselves exposed to commercial crises and the failure of their own businesses.[45] From this perspective, it is not surprising that the Bank got involved in supporting the West India merchants in financial difficulty. But the Bank also provided ongoing support to the West India merchants because it was genuinely committed to prevent the commercial distress from threatening the nation's financial system as it did in 1793. During this period, the West India trade was in a fragile state both because it was operating in a war zone, and because of the regulation of the slave trade that would eventually culminate in its abolition in 1807. The bitter experience of failing to support West India firms during the crisis in 1793 and commercial credit during the 1796-97 crisis led the Bank to recognize both a duty by supporting the West India trade and the particular danger of failing to do so in the monetary environment created by the Suspension of Cash Payment.

Between 1804 and 1807, the Bank of England made three extraordinary loans to domestic trading houses; a distiller in 1804 with £18,000[46], a London druggist and dry-salter in 1805 with £15,000[47] and a trading firm in 1806 with £36,000.[48]

At the end of 1806 and beginning of 1807 we see two loans to West India merchants. In October a large loan f £150,000 was made to Thomas Coles & Sons which was paid in 18 months (C.D. Dec 18 1806, Oct 1 1807). Coles & Co was considered to be one of the first rated companies in general brokerage in London specializing in the West India trade. Although the firm appears to have recovered from the temporary commercial difficulty of this year, it stopped payment in the summer of 1810, which resulted in the bankruptcy of their London bankers, Brickwood & Co.[49]

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[45] According to Howe, half of 23 Bank directors died with estimated estates less than £100,000 between 1833 and 1847. Howe (1994).

[46] This firm stopped payment at that time and required the loan in order to pay its excise taxes and keep in operation. This loan was apparently paid off according to its original terms.

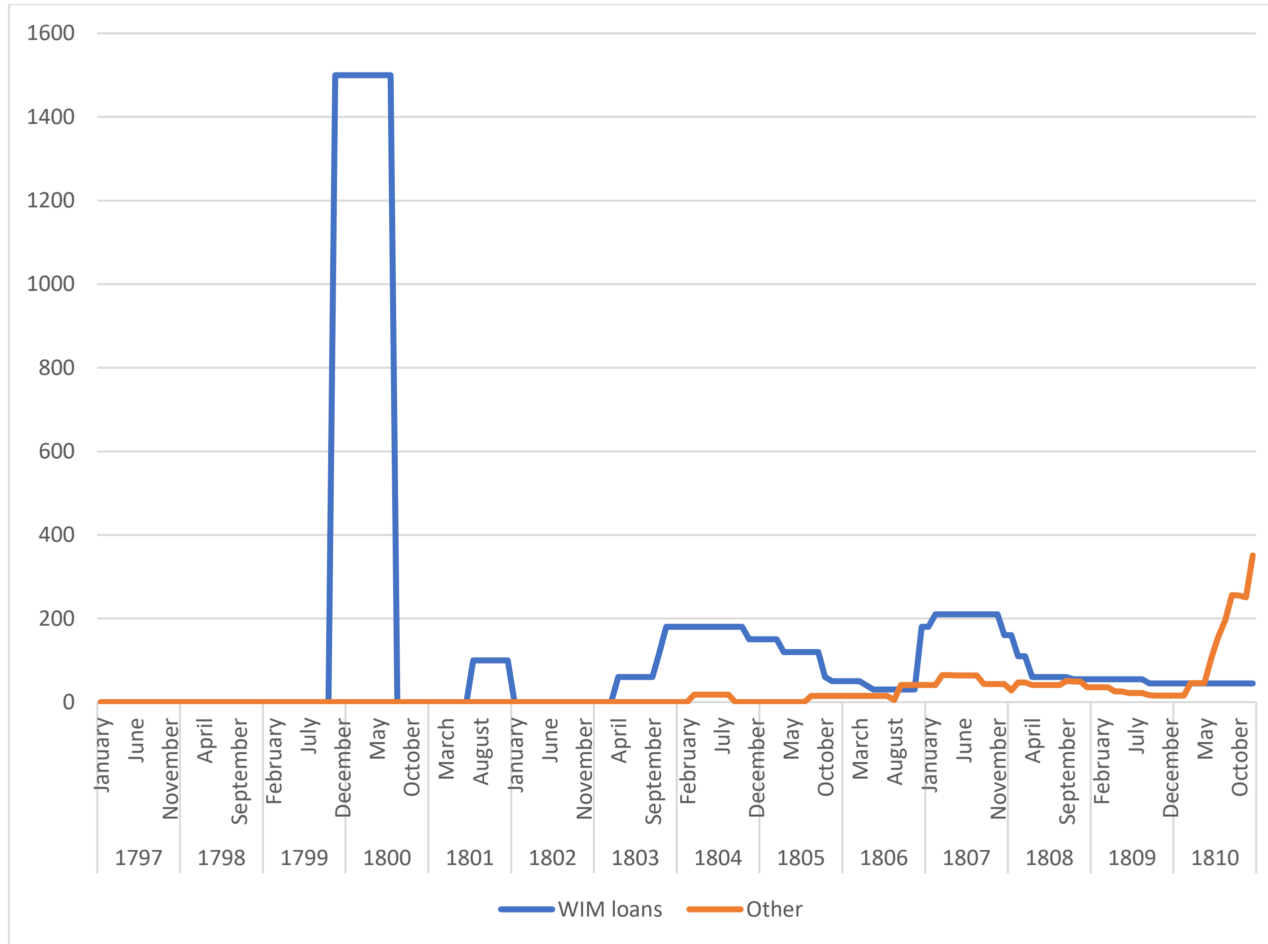
[47] The Bank agreed to renew the loan a year later, but to no avail: within a week of the renewal approval the firm was in liquidation and could not renew the promissory notes. Two years later in 1808, £3000 (or 20%) was still outstanding on the loan and the Bank agreed that if half was paid promptly, one quarter may be paid in 1809 and the last quarter in 1810

[48] This firm had apparently also stopped payment at that time. Aside from a brief extension for part of the total, this loan was paid on time.

[49] The failure of the London bank had direct repercussions on large number of bankers (both in London and provincial towns) and mercantile clients, and impacted the Bank's discounting policies. Duffy(1985).

This was followed by a smaller loan of £30,000 made to Donaldson and Thomas when the firm had illiquid bills related to its contract to supply foodstuffs to the "King's ships", but this loan required extension (C.D. Feb 19 1807, Oct 18 1807). In October 1808, the whole £30,000 of Donaldson and Thomson's loan was combined with the remaining balance on the loan to Donaldson and Glenny, the related company that we discussed earlier, and was renewed with the inauspicious note "without engaging for any specific time" (C.D. Oct 20 1808). By December 1810 less than 25% of the October 1808 balance had been received, and the Bank, running out of patience, demanded liquidation (C.D. Dec 6 1810, Jan 3 1811). In 1813, £25,000 was still outstanding, and the power of attorney issued on July 8 1813 by the Court to representatives in Jamaica empowering them to act on the Bank's behalf in collecting debts was almost certainly related to this case (C.D. Jan 28 1813, July 8 1813). Given that these two (combined) loans were the only West India merchant loans that clearly resulted, not just in delayed payments, but also in losses for the Bank, it is worth recalling that the first loan application for Donaldson and Glenny was submitted by Manning, Alexander Bosanquet & Co, owned by William Manning, a Bank Director and Charles Bosanquet, the son of a Director.

Chart 2: Extraordinary Loans 1797-1810 (£ thousands)



Source: Bank of England Court of Directors meeting minutes

As Chart 2 demonstrates the extraordinary loans to non-West India individuals and firms were relatively small and until 1808 the balances owed by the West India merchants on extraordinary loans generally exceeded those to domestic individuals and firms by an order of magnitude. From 1807 to 1808 three non-West India merchant loans were made: the largest was to Nathaniel Bogle French, a former Director of the Bank, which was paid only very slowly over the course of six years; £20,000 was lent to Archibald Dalzel, an African slave trader for six months which was extended to just over a year; and £10,000 to C & R Puller, a well-connected firm run by the children of a former long-time Bank director who were apparently very friendly with the Deputy Governor. This last loan was paid off within a year and a half. The following two years of 1808 and 1809 were boom years, and lending to both West India merchants and non-West India merchants began to run off.

4. The 1811 policy of emergency lending

The boom years of 1808 and 1809 however reflected the desperate responses of British merchants to the disruption of overseas trade during the Napoleonic Wars. The war threatened European and American trade, the two most important export markets and the leading source of imports for Britain. When the opportunity arose to trade with the traditional markets, commercial activity became intense. Also, many merchants sought alternative markets especially in Central and South America. As a result of this trade boom in the fourth quarter of 1809 many British merchants had an overstock of colonial and other imported goods which could not be sold. Nevertheless, more imports continued to arrive from Europe and the West Indies, as many of them were in fact payments in kind for previous exports. The combination of glutted domestic markets and losses by speculative exporters, in particular, to South America, led the widespread bankruptcies in 1810. The commercial crisis left the Bank of England with both more accounts going into default and a larger quantity of unpaid bills than would be the case in the 1825 crisis.[50] This is also the first crisis where the minutes of the Court of Directors clearly document the Bank's commitment to support commercial activity[51]. As part of its package of supporting business activity, the Bank did not just act as a classic lender of last resort allowing its supply of discounts to increase with the market demand for them, but also put in place an emergency lending policy. This policy was built upon the

[50] Sissoko (2018)
[51] (Sissoko 2018; C.D. February 15 1810, p. 219)

structures that had been developed a few years earlier when making loans to the West India merchants.

The Bank of England adopted a new regulation for “all special loans to individuals” in February 1811 (C.D. Feb 28 1811, 521-22). Subsequent loans under this category were managed by the Committee of Treasury by following these rules, and they generally do not appear in the minutes of the Court of Directors unless the established regulation could not be applied. The regulation was comprised of four parts:

First, two or more “respectable persons, not Directors of the Bank, nor creditors or debtors to the Estate” were required to inspect the drawing up of the applicant’s accounting statements to be presented to the Bank, sign them, and “as a confirmation of their belief in the correctness of [the statement] agree to become securities for part of the loan.” Second, these inspectors must “certify that the sum asked will be sufficient to enable the applicants to settle their affairs and satisfy all their creditors” and no loan will be made until “security is given” (i.e. guarantors were found) for the whole sum of the loan.

It is worth examining these two parts in detail. The first and second rules resemble the procedure taken in the case of the Donaldson and Glenny application in 1803. That is, the inspectors (i) presented the applicant’s accounts (or financial details) to the Bank, (ii) certified that the loan amount (or sum) should be adequate to enable the firm to recover and (iii) agreed to have “skin in the game”. No loan could be made until guarantors were found for the full amount of loan. Note, however, that the Bank had learnt from the losses it incurred on the Donaldson and Glenny loan, because the Court added one important condition: that the inspectors must be neither Directors of the Bank, nor creditors or debtors of the applicant.

The third part of the regulation read, “no loan shall be granted to Houses which have already stopped unless upon very special occasion”. This was because the purpose of the Bank’s loan was to support the credit of those whose assets were sufficient but “may be for a time placed out their reach”, while its aim was “not to enable Houses who have failed to compromise or settle with their creditors.” It should be acknowledged that this regulation was stricter than the rule with which we are familiar today that a central bank should lend only to illiquid and not to insolvent institutions. This regulation, on the contrary, stated that firms needed to seek

assistance from the Bank *before* they had to refuse payment to a creditor, in other words, before they met the illiquidity criterion for being forced into bankruptcy.

As detailed above, the Bank of England had the experience of lending to West Indian merchants that had already stopped payment in 1803. When the Bank intervened in 1803 to support a bankrupt firm, it soon found itself drawn into the back and forth negotiations between creditors. The Bank became keenly aware of the impact that its intervention could have on the balance of fairness that the legislators attempted to achieve through the legal procedures established by the Bankruptcy Act. Furthermore, as the Donaldson and Glenny case revealed, the Bank could be misled by optimistic valuations of illiquid assets into permitting collateral to be pledged to certain of the creditors supporting the slow liquidation of the firm – at the expense of other creditors including the Bank. That this loan resulted in costly losses may well have played a role in the Bank's aversion to lending to firms that were likely to go bankrupt. That is, the Bank sought to avoid becoming the unwitting tool of a subset of creditors. The Bank, however, was also aware that it needed to be flexible when it came to restricting its extraordinary lending only to borrowers who had not stopped payment. From the very beginning the Bank allowed that exceptions could be made "upon very special occasion."

The fourth regulation stated that, if due to unforeseen circumstances the purpose of the loan was frustrated and the applicant was obliged to stop payment and/or declare bankruptcy, "the securities [i.e. the guarantors of the loan] are to understand that they will be called on to take up their notes, the object of the loan being defeated. And that this resolution be communicated to the securities that they may understand this to be the condition of their agreement." Here, the Bank made it clear that, if the applicant of the loan stopped payment despite the Bank's support, the Bank did not expect to be a creditor of the applicant, but that the applicant's stoppage sufficed to accelerate the securities' guarantees which became immediately payable to the Bank. The net result was designed to leave the securities as the creditors in bankruptcy of the applicant and to keep the Bank out of the bankruptcy.[52] It was more likely that this fourth rule, more than any other rules, was most effective in protecting the Bank from lending to firms that went bankrupt. As soon as the applicant stopped payment, the sureties would be required to pay the whole of the principal of the loan. This

[52] Whether this policy was or was not mostly effective in the 1810-11 crisis is unclear. If both the applicant and the security declare bankruptcy, then the Bank has a claim in two bankruptcies not just one. There is no question that the Bank was still trying to collect on some of this debt in 181?, but whether the problem loans were made before the January 1811 policy was put in place remains unclear.

gave an incentive to the sureties to make sure that the applicant was in fact both solvent and unlikely to stop payment after the loan was made.[53]

These new regulations were to some extent effective: In 1812, two more loans were made to West India merchants (Gordon Murphy & Co and Inglis Ellice & Co.) who had been affected by the Napoleonic War, the amounts were for £100,000 and £150,000, respectively, and the terms were for 12 to 18 months. These loans were apparently repaid without a renewal. The war also affected a South American merchant who received a £40,000 loan in 1814 (Joseph & John Corsbie). This loan was repaid after a single renewal. However, the loan of £100,000 to a West India merchant in 1816 (O'Reilly Young & Co.) was less successful as the merchant went bankrupt within four months after the loan was made. This event forced the firm's securities to seek extra time from the Bank in order to make their payments.

5. Conclusion

This paper has demonstrated that the first beneficiaries of extraordinary term lending facilities designed by the Bank of England were the West India merchants. The Bank was concerned about the widespread business failures amongst the troubled firms in the West India trade and beyond in the crises in the 1790s. And by 1811, the Bank not only acknowledged its responsibilities to act to protect the country's business and commercial community, but also in 1811 it adopted as a formal policy active lending to support liquidity constrained firms through crises that went beyond the Bank's traditional passive discount policy. The set of policies for the Bank's active lending included (i) the use of bills that did not originate in a genuine commercial transaction as a lending instrument (thereby condoning them), (ii) loans at relatively long-term, i,e. for 6 to 18 months, to business firms in need of liquidity, and (iii) loans upon the repo of government bonds. Only after these lending techniques were established in aid of the West India merchants, were they applied to last resort lending during the crises of 1810, 1816, and 1825.

In the subsequent decade of the 1820s, the Bank of England made further modifications to these lending policies above discussed. Through the early years of the nineteenth century

[53] This may not be true if the loan applicant and the securities are so closely connected that the failure of one necessarily involves the failure of the other. Then they may join together in "gambling for redemption." On the other hand, the security's notes were often for less than 10% of the loan so the list of securities typically had 10 names or more, making this possibility less likely.

lending against the collateral of goods, as was noted above, ran into technical legal problems that were hard to overcome. In 1826 these issues were addressed by legislation. During the early crisis months of 1826, the government refused to provide Exchequer Bills in exchange for illiquid assets as it had in the crises 1793 and 1810, and instead moved the effective date of the relevant legislation up and pushed the Bank to address the continuing effects of the crisis by lending against the security of goods. In the event only £533,000 was lent and only a third of the loans issued through this vehicle were actually secured by goods, the rest was on the personal security with which the Bank was much more comfortable (February 28, 1826).[54] Further, lending on the repo of government bills and other short-term instruments was introduced in 1824 as a means to increase the Bank's income. A regular policy of lending on repo was not established until the end of 1829 when six-week repo was used to smooth the cyclical variation of the money. From then on, the use of repo together with the quarterly loans during the shutting, became a fixture of the economy for decades.

Historiographically, our paper incorporates two major changes in British economic history of this period: that the embryonic development of the last lender lending could be linked with the shift in the slave trade and more broadly in the market reorganizations in the Atlantic Economy during the Napoleonic Wars. First, the findings of this paper that the policies for last resort lending by the Bank of England had been originally established to support the West India merchants can lend empirical support to the claim that the slave economy played an active role in the development of financial markets in Britain. Economic historians have been debating the question of the extent to which gains from overseas trade stimulated Britain's early industrialisation. Over the latter half of the twentieth century, most mainstream scholarship on the Industrial Revolution has tended to focus on domestic factors in Britain and has paid little attention to the role played by overseas trade in British economic development.[55] More recent scholarship has, however, renewed focus on integrating foreign trade and the colonial economy into narratives of domestic economic growth. Pomeranz's Great Diversion, for example, sees the Atlantic markets together with coal, as playing an important role in the advance of British productivity from around 1800, over the stagnant growth in the Yangzi delta region of China[56]. Authors such as Acemoglu and his colleagues argue that the Atlantic trade

[54] Clapham 1945: II, 108
[55] Thomas and McClosky (1981). On the summary of the debate over the role of overseas trade on British economic development up until 2000, see Morgan (2000).
[56] Pomeranz (2002).

might also have fostered progressive political institutions in the eighteenth century.[57] Although economic historians are in agreement that overseas trade and imperial colonization were integral to British economic development through the eighteenth (and early nineteenth?) centuries, there is little consensus over to what extent and how precisely the various economic factors interacted with each other to stimulate/promote modern economic growth in Britain during this period. As for the connection between the slave economy and the development of financial markets in Britain, there has been so far only fragmentary evidence to show the actual volume of lending made by British banks (country banks, London banks) to the slave trade or the West India trade. Our findings from the Bank of England archives add much needed evidence to the current literature stressing that overseas trade and imperial colonies were integral to British economic development.

In addition, the findings of this paper can contribute to the literature on the historical development of the last resort lending by the Bank of England.[58] The general consensus is that while the Bank of England performed some aspects of the lender of last resort role as early as the mid-18th century[59], it was only in the 1870s that the Bank fully embraced its public responsibilities.[60] This paper has demonstrated that the Bank not only acknowledged public responsibilities by 1810, but also in 1811 adopted a formal policy of 'active' lending to support liquidity-constrained firms through a crisis that went beyond the standard 'passive' discount policy of the Bank. In suggesting these claims, this paper takes a different approach to the role played by the British banking system in the country's early industrialisation from some of the recent scholarships. Temin and Voth for example have argued that the British banking system was unable to provide support for the economy during these years using data from a West End bank, Hoare's.[61] Because Hoare's focused on providing services to an aristocratic clientele rather than to commercial clients, there is reason to believe that its data is not representative of the broader banking system.[62] In the contrary, by focusing attention on the City bankers who provided financial services to the commercial mercantile community throughout this period, this paper is able to provide a different perspective to the British banking system. Importantly, by moving the date at which the Bank clearly and deliberately assumes the mantle of lender of last

[57] Acemoglu et al (2005).
[58] The literature on the historical development of the lender of last resort is surveyed by Bindseil (2019) and Ugolini (2017).
[59] King (1972), Lovell (1957), James (2012), Ugolini (2017), Kosmetatos (2019).
[60] Fetter (1956), Goodhart (1988), Arnon (2011), Flandreau and Ugolini (2017).
[61] Temin and Voth (2013).
[62] Indeed Hoare's was not a member of the bank clearinghouse in this period (Holland 1910: 271. See also H.C. 1810: 148).

resort to the early years of the 19th century, this paper raises the possibility that a connection can be drawn between the lender of last resort role played by the Bank and the 'take-off' to economic growth that Britain experienced.[63] This however is a topic for future work.

[63] As was argued by Duffy 1985: 329.

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Table and Appendix 1: Loans made by the Bank of England from December 1787 to April 1823.

Note: The table has been compiled from the entries under "Loans" in the Minutes index (as provided for the minutes for each year) and it has excluded short-term loans made to support the issue of long-term government debt, and loans to regular borrowers (e.g. East India Company, South Sea Company, Hudson's Bank Company). A borrower was identified as West India Merchant (WIM) when the firm or individual was matched with those listed in the Legacies of British Slave-Ownership Database, https://www.ucl.ac.uk/lbs/ or noted in the British National Archives, http://discovery.nationalarchives.gov.uk/.

Borrower	Type	Date	Amount	Length	Renewals	Writeoffs/Notes
Multiple (WIM Committee)	WIM	Oct 17 1799, Nov 7 1799	£1,500,000	6 mo	Mar 20 1800 (3 mo)	No writeoffs
Hibberts, Fuhr & Purrier	WIM	June 25 1801	100,000	6 mo		
Messrs. Goldsmid	Gov't finance	May 6 1802 Dec 9 1802 July 7 1803 Aug 18 1803 Feb 16 1804	400,000 200,000 76,000 160,000 300,000	30 days 1 mo 10 days 14 days 14 days	June 3 1802 (£400, 1 mo)	Against Exch. Bills as security. In Feb 1804 the Court disapproves such lending unless upon application of Ch. of Exchequer.
Andrew Stirling[64]		Mar 17 1803	10,000	4 mo		
John Willis & Co.	WIM	April 7 1803	60,000	18 mo	Oct 25 1804 (12 mo)	
Alderman Boydell		Sept 1 1803	16,000			The absence of term on this loan indicates that this "loan" may reflect only an unusually high credit line for conventional discount lending.
Thomas Andrews		Sept 1 1803	60,000			The absence of term on this loan indicates that this "loan"

[64] Does not show up under "Loans" until fiscal year 1803 to 1804 when the Deputy Governor reports on this loan, although there is an entry under "Stirling" in the previous fiscal year's index. Most likely this refers to Andrew Stirling of Drumpellier, owner of Andrew Stirling and Co which closed in 1803. See ODNB entry for Sir James Stirling, son of Andrew.

						may reflect only an unusually high credit line for conventional discount lending.
Donaldson & Glenny	WIM	Sept 29 1803	60,000	18 mo	Oct 25 1804 (£30, 12 mo) Jan 23 1806 (£20, 12 mo) May 1807 (12-18 mo) Oct 20 1808 (£15 indef)	Appx £9,000 Jan 28 1813 less collections in Jamaica (see July 8 1813)
Simpson & Davison	WIM	Nov 10 1803	40,000	12 mo	Nov 8 1804 (£20, 12 mo) Oct 24 1805 (£10, 6 mo)	On notes
Lushingtons & Mavor	WIM	Nov 17 1803	20,000	12 mo	Sept 18 1804 (£10, 12 mo) Oct 10 1805 (£5/£5, 3 mo/9 mo) Feb 6 1805 (£10, 15 mo) Aug 7 1806 (£10, 12 mo) Aug 20 1807 (£10, 12 mo) Sept 1 1808 (£10, 12 mo)	On bills
London Dock Company		Dec 22 1803 Feb 16 1804	50,000 20,000	4 mo 2 mo		
John & Samuel Liptrap	Distillers	Feb 23 1804	18,000			
London Dock Company		Nov 22 1804 Mar 28 1805	50,000 50,000	4 mo 4 mo	Mar 28 1805 (£50, 4 mo)	Note that from March through July the debt was £100,000
Lucas, Parkinson & Teush	Druggists	Aug 8 1805	15,000		Aug 14 1806 (£15, 12 mo) July 14 1808 (£1.5/0.75/0,75, 2 mo/14 mo/26 mo)	Aug 21 1806: subsequent to bankruptcy, guarantors request for extension denied.
George Sharp & Sons		Sept 18 1806	36,000		Sept 24 1807 (£15, 4 mo)	
Thomas Coles & Sons	WIM	Dec 18 1806	150,000		Oct 1 1807 (£50/50, 2 mo/4 mo)	

Donaldson & Thomson	WIM	Feb 19 1807	30,000		Oct 18 1807 Oct 20 1808 (indef)	Appx £16,000 Jan 28 1813 less collections in Jamaica (see July 8 1813)
Nathaniel Bogle French	(Former Director)	Feb 26 1807	24,000	6 mo	… March 30 1809 (£14, 2 mo) … Sept 12 1811 (£6, 2 mo) … Jan 28 1813 (£4, 2 mo final)	
Bristol Dock Company		April 30 1807 Aug 6 1807	60,000 40,000	9 mo	March 24 1808 (£100, 12 mo) Feb 15 1809 (£50, 12 mo)	
Archibald Dalzel	African trader	Jan 28 1808	20,000	6 mo	Aug 11 1808 (£10/10, 4 mo/8mo)	
C & R Puller	(friend of Dep'y Gov'r?)	Sept 1 1808 Sept 8 1808	6,000 4,000	6 mo 6 mo	March 2 1809 (£10, 6 mo) Sept 21 1809 (£5, 5 mo)	
Simon Cock		Feb 22 1810	35,000	12 mo	Aug 16 1810 (£35, 6 mo) Feb 28 1811 (£35, 6 mo?) July 11 1811 (£35, 6 mo) March 26 1812 (£31.5, 2 mo)	
Walmsley Turner & Co.		June 7 1810	60,000		June 6 1811 (£36.7, 6 mo) Dec 28 1811 (£23.1, 6 mo)	
H. Vos	General merchant	June 28 1810	50,000	12 mo		
Goslings & Sons	Wine merchants	July 26 1810	18,000	10 mo		
Richard Wilcox & Co.		Aug 2 1810	22,000	12 mo	Feb 20 1812 (£8, ?)	
Aldebert Becher & Co.		Sept 2 1810	30,000 30,000	6 mo 8 mo	March 28 1811 (£46, 6 mo)	
Hunters Rainey & Co.	General merchants	Nov 29 1810	100,000	12 mo	April 11 1811 (£90, 2 mo) June 6 1811 (?, 2 mo)	Feb 7 1811: request from sureties for extension denied

					Aug 22 1811 (£60, for sureties?)	
Robinson, Clarkson & Co.		Jan 3 1811	60,000		July 11 1811 (£15/15/15/15, 4 mo/6 mo/8 mo/10 mo)	
Richard Debary		Feb 21 1811	3,000		Aug 29 1811 (£1, 4 mo)	
Gordon Murphy & Co.	WIM	Aug 27 1812	100,000	12 mo		
Inglis Ellice & Co.	WIM	Nov 19 1812	150,000	12 to 18 mo		
London Dock Company		July 29 1813 Jan 20 1814 Feb 2 1814 July 21 1814	50,000 50,000 10,000 50,000	2 mo, 5% 2 mo, 5% 2 mo, 5% 2 mo, 5%	Sept 23 1813 (£20, 2 mo) See note	On March 24 1814, the Bank leases the London Dock House and adjoining Counting House to the London Dock Co for 18 year at a rate of £545 per annum. This implies that £10,000 of the Company's property was transferred to the Bank which then leased it back to the Company.
Joseph & John Corsbie	S. American property owners	Sept 8 1814	40,000	9 to 12 mo	Aug 24 1815 (£20, 6 mo)	
London Dock Company		Jan 19 1815 July 13 1815	50,000 50,000	2 mo, 5% 2 mo, 5%	March 23 1815 (£50, 2 mo) Sept 21 1815 (£20, 2 mo)	
Hawks Stanley & Co.	Newcastle Ironmongers	Sept 14 1815	20,000	12 mo		
London Dock Company		Oct 12 1815	150,000	6 mo, 5%	May 23 1816 (£150, 6 mo) Oct 24 1816 (£150, 6 mo) Jan 9 1817 (£150, 6 mo)	This loan is on the bonds of the Company, the issue of which was authorized by statute.

					Oct 30 1817 (£150, 6 mo)[65] May 21 1818 (£150, 6 mo) Nov 19 1818 (£150, 6 mo) July 15 1819 (£150, 6 mo) Feb 2 1820 (£150, to May 31) June 8 1820 (£150, 6 mo) Nov 30 1820 (£150, 6 mo) May 31 1821 (£110, 6 mo) Feb 4 1822 (£60, to May 31)	
Fereday Smith & Fereday	Iron & coal works	Oct 18 1815	20,000	12 mo	Aug 29 1816 (£20, ?) June 19 1817 (£10, 6 mo) Dec 18 1817 (£6/2/2, 1 mo/6 mo/12 mo, for surety)	July 22 1819 paid off.
New River Co.	(at request of Fereday Co.)	Sept 12 1816	150,000	10 yrs, biannual payments	Jan 24 1822 (£?, 5 years to April 1832)	February 1828 £22,528 written off
Thomas & Matthew Pickford	Carriers	Mar 28 1816	12,000	6 mo		
O'Reilly Young & Co.	WIM	April 4 1816	100,000	12 mo		Aug 8 1816: allow solvent securities to renew their notes
B. Fayle & Co.	Clay quarry	May 16 1816	25,000	12 mo	April 24 1817 (£24, 6 mo, for securities)	Nov 14 1816: securities request for extension granted
Noble & Hunt	Newfoundland merchants	July 11 1816	27,000	12 to 18 mo	March 9 1820 (£3.5, 4 mo)	Accept country securities as security
Estate of John Wilkinson	Ironworks	July 11 1816	62,000	12 to 36 mo	July 30 1818 June 15 1820 Sept 14 1820	August 1828: £16,667 written off.

[65] This entry does not appear in the index under "Loan," but only under "London Dock Company"

Northumberland Bank carried on at Newcastle under the firm of Reed, Batsons, Reeds & Co.		July 25 1816	100,000		May 14 1818 (£20)	July 11 1816: first application denied. Country securities, but not mortgages, apparently accepted after appeal.
Campbell Bowden & Co.	WIM	Jan 14 1819	150,000	12 mo	Dec 2 1819 (£150, 9 mo) Oct 12 1820 (£?) Oct 11 1821 (£26) Oct 3 1822 (£16.3) Oct 16 1823 (£7.45)	
Edmund Boehm	EIM (passive for last 20 years)	March 4 1819	£130,000			To facilitate dissolution of Boehm and Taylor. Dissolution is discussed at length in Berney v. Davison (1820) 4 Moore 126.
Kent Arbouin & Co.		Mar 11 1819	£20,000			To facilitate liquidation.
Estate of Boyd Benfield & Drummond		May 10 1821	£150,000			To facilitate an immediate dividend to the defunct firm's creditors. Secured by Exchequer Bills.

Additional notes:

A loan to "John Puget" is requested on behalf of the Irish Government and therefore omitted from the Table (Feb 23 1804, 138-40; June 14 1804, 226-28).
Upon the death of Mr. Goldsmid his estate finds itself obliged to make payment on the Omnium in a market where it cannot be sold. As a result, the Chancellor of the Exchequer requests a seven-month loan to the Goldsmid estate in order to avoid the dislocation of the market for the Omnium that would be caused by Goldsmid's forced sale of all its holdings. The bank complies with the request (April 11 1811, 10-14). Because the request comes from the Chancellor of the Exchequer this is treated as a government loan.
In fiscal year 1821 to 1822, there is an entry on loans to clerks who have since retired, regarding a resolution permitting reduction of installment payments in proportion to their retirement payments (Dec 13 1821, 213).