The City of financing regions and industrial clusters in the nineteenth century

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FINANCING REGIONS AND INDUSTRIAL CLUSTERS IN THE NINETEENTH CENTURY

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8,167 (with footnotes)

Introduction

Over the course of the last decade, leaders of the British Labour party have each announced their ambition to change the nation's banking system. Most British banks have their headquarters in London. With its transport links and rapid communication, London has become one of the world's financial centres (Cassis and Collier, 2010). Yet the growth of London itself and its focus on lucrative international markets has been considered by the leaders of the Labour Party to be problematic. In 2013, Ed Milliband, when leader of the Party, made a commitment to promote regional growth. Milliband viewed banks in the United Kingdom as being out of touch with society; unwilling to lend to regional SMEs; and unable to promote economic prosperity, owing to a primary duty to their shareholders.[1] To promote economic growth outside London, Milliband aimed to break down the banks in the United Kingdom into smaller regional enterprises. Milliband's successor, Jeremy Corbyn, and John McDonnell, the shadow Chancellor, made similar observations.[2] Private enterprise has since taken up their mantle. In January 2021, the regional Birmingham Bank obtained a full licence. The new bank's owner, Lee Bushell, stated that 'he wanted to create a lender that could use local knowledge to make better decisions and address "frustrations" of other small and medium sized business owners, who feel increasingly overlooked'. The Mayor of Birmingham added that 'Having an understanding of the sectors that really matter here has got to be good' (Megaw, 2021).

This chapter engages critically with some of the propositions in Labour Party policy and the developments of contemporary private enterprise by using examples from the past. A national bank network came to develop in the merger movement in the United Kingdom in the late-nineteenth/early twentieth century (Barnes and Newton, 2018a; Billings et al., 2019; Cottrell, 1986; Garnett et al., 2015; Sykes, 1926). We examine the regional banking network that existed prior to this moment in time. The chapter considers the system of joint-stock banks in England and Wales in the period 1826 to 1844, when these institutions were owned by local individuals (Newton, 1997; Rutterford et al., 2017; Turner, 2009). It investigates whether banks in this environment were – as Milliband, Corbyn, McDonnell and Bushell suggest – embedded within local societies and commercial communities, and more willing to lend and thus support industrial growth. It asks: were English banks motivated, and their operations limited, by a sense of local civic duty? Or were they restrained by logistical costs, information asymmetries and a lack of knowledge about distant markets? To what extent were these organizations supporting their local economies through sustainable and long-term lending? How did they balance the demand for credit on one hand and the risk of failure and lending too much on the other?

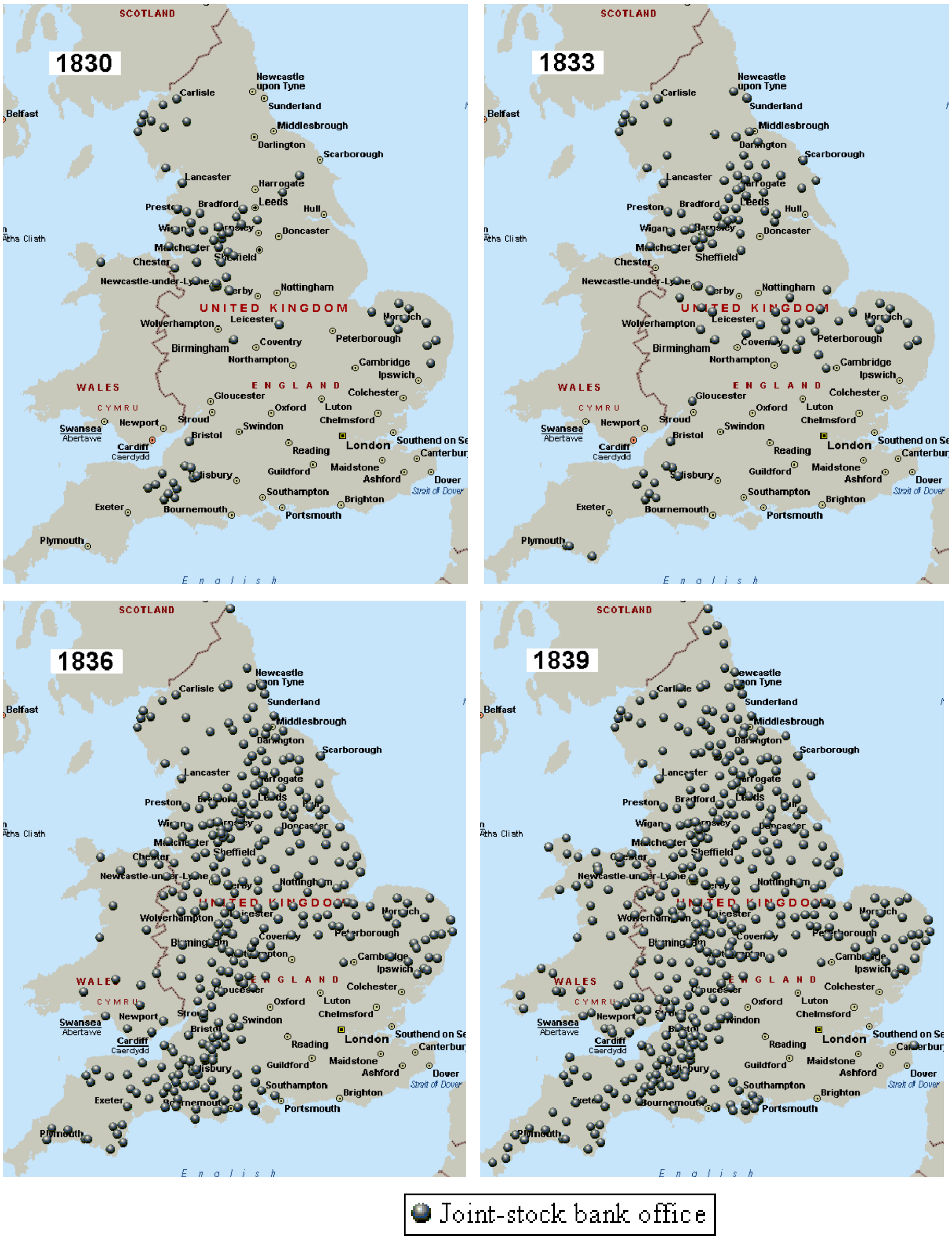
To do so, we first use a dataset of joint stock bank branch networks, which shows the extent of geographical spread and the limitations that were placed on it. This empirical analysis highlights the regional nature of banking and that even the biggest banks were part of a local hub. It then in the second section moves to consider the industrial economies and commercial communities that made up England and Wales and the bank's relationship to it. For banks, operating at a local level meant specialised lending that could benefit from local knowledge, as well as the development of trust and commitment to local businesses. Finally, we consider the issue of sustainability and bank stability. Bias in local lending markets might have arisen if credit allocation was not conducted objectively and if local loyalties overrode feasible lending decisions. Overall, we show that financial institutions, when regional, provided finance to local businesses and the surrounding area. Closeness to industry and the community could lead to instability. The failure of a local bank meant a reduction in the means of payment, immobilisation of capital and possible contagion effects, exacerbated by the limited resources that smaller financial institutions had to draw upon in times of crisis. This could be disastrous for a locality and was a source weakness of regional banking in the nineteenth century. Yet the majority of joint stock banks were careful to limit their exposure and adopted cautious lending behaviour to avoid such dangers.

Rapid bank expansion

This section shows the way that joint stock banks began to spread geographically across England and Wales. As shown in Figure 1, in 1830 just fifteen joint stock banks (with associated branches and offices) existed.[3] Congregated in several isolated locations, these banks scattered themselves as groups across England and Wales. Despite agglomeration, particularly in Lancashire, direct overlap and competition between these banks was, in fact, rare. The dataset identifies 70 units, although in most of the locations only one unit existed.

Three locations, namely Manchester, Carlisle and Bristol, had more than one joint stock bank unit based there.

Figure 1: Geographical spread of joint stock units, 1830, 1833, 1836, 1839



At this point in time, within Manchester, both the Bank of Manchester and the Manchester and Liverpool District Bank competed for business but the two had different strategies on promotion. While the Bank of Manchester existed within the commercial hub that was Manchester,[4] the Manchester and Liverpool District Bank spread its network across the

North West and as far as Bangor in Wales. This trend in towns of cities of a single unit bank versus a bank with a medium to large sized branch network can also be identified in Carlisle and Bristol.[5] Within the South West, Stuckey's Bank quickly formed one of the first joint stock banks from a merger of several private banks. Its rapid and seamless establishment of a branch network proved unusual, owing much to its private foundations and formation (Cave, 1899).

With the formation of a single or a couple of unit banks per town or city, the spread of joint stock banking extended from the North West outwards into Yorkshire, Birmingham and the Midlands. The remaining block of joint stock banks, located in East Anglia, were part of the Norfolk and Norwich Joint Stock Banking Company's network; it was the only bank in this region. While joint stock banks surrounded Lancashire, these banks and their branches were, on the whole locked within that region. This high level of bank diffusion was particular to Lancashire and not apparent within other areas or regions.

The foundation of new joint stock banks in 1830 influenced the pace of geographical expansion. New entrants tended to avoid areas already served by joint stock banks, together with further concentration and competition. Rather, new banks pushed into and entered different regions that were mainly served by private banks, therefore competing directly with them. For instance, Stamford and Spalding Joint Stock Banking Company operated with 16 branches within Lincoln and the Midlands. Several new companies emerged in Yorkshire.[6] Plymouth and Devonport Banking Company opening three branches, yet joint stock banks in the South West remained scant in comparison to other regions, as can be seen in the Figure 1 map for 1833. This area remained predominately served by private banks.

After a promotion boom in 1836, the national map comprised 62 joint stock banks. The number of banking companies in operation doubled from 1833 to 1836 and banks filled gaps in branch coverage which had remained in the extremities, such as in Wales and the South West. While in 1833 around only 15 per cent of locations listed held two or more joint stock banks, by 1836 the figure rose to over 40 per cent. Most of the banks that entered the market in the 1836 boom did not form before the 1836 return, which was taken in January. This geographical explosion in banking companies therefore followed into 1837, which resulted in over 100 joint stock banking companies operating.

Overall, the spread of joint stock banking across the map of England and Wales was both rapid and sudden. By the end of this period in 1844,[7] few gaps in coverage by joint stock banks within the provinces remained.[8] Many of those operating in local and regional economies clearly saw the need for stable banking institutions and consequently formed joint stock banks to service the requirements of regional economies. Others primarily saw a potential business opportunity.

The two motives could, of course, combine and complement each other. Most notably, the speed of this change owed much to the nature and presence of branch banking, rather than the simple presence of individual or single unit banks. The following section will examine this in more detail.

Regional aims

While placing the focus upon the regions of England and Wales might appear narrow, before the mid-nineteenth century the British economy was one that was dominated by regional activity. Hudson commented that: 'The really important spatial unit regarding the market for factors, especially capital and labour and for information, commercial and credit networks in the pre-railway period was undoubtedly the often clearly delineated economic region' (Hudson, 1986, pp. 11–15). Before the 1860s, the capital market in England and Wales was predominantly regional, albeit with national links with London via discounting bills of exchange (Nishimura, 1971). In this environment, inhabitants of the English and Welsh provinces developed a strong sense of 'regional' economic and social identity.

The promoters of the new joint stock banks recognised strong identities at both the local and regional level. Many of the prospectuses of these institutions were keen to advertise their support for the economic interests of the regions in which they were located. Indeed, many of the founders of the new joint stock banks were in business themselves and therefore had a vested interest in the economic success of a region and, by logical connection, to the financial stability of the area's financial institutions (Newton, 1997, 1996). The founders of the Huddersfield Banking Company were clear in their opinions with regard to the benefits of new banking establishments to the economic health and wealth of their region following the 1825/6 crisis, as well as to the drawbacks of the previous system of private banks.

> The late panic, which caused such a lamentable effect upon the trade of the kingdom, and so materially contributed to the general distress suffered by the commercial and manufacturing classes, has been felt by HUDDERSFIELD and its NEIGHBOURHOOD in a peculiar degree; this district has not only suffered the evils resulting from the general suspension of demand, which has been common to all manufacturing districts, but has been visited with an additional local evil in the failure of five banking establishments; this instantaneously withdrawing from circulation some hundred thousand pounds, and causing losses to a very considerable amount [original capitals].[9]

The 1825/6 crisis led to the failure of five out of six banks in the town of Huddersfield. The founders of the new joint stock bank claimed that such bank failures:

> have been the means of again retarding the growing prosperity of a district which in former years had to encounter similar evils. By the failure of these banks a vacuum has been caused which, in all probability, will be filled up by other establishments of a similar nature; equally subject to the same disasters and from which the same consequences may again arise; unless a public company of a more solid description be formed in their place.[10]

The founders of the Huddersfield Banking Company therefore put forward their arguments in favour of the new form of joint stock banking with great eloquence, using the prosperity of the region as a crucial consideration in the provision of a more stable banking system for the area.

The Huddersfield Banking Company was situated in the county of Yorkshire, the largest county in England and a region particularly badly hit by previous bank failures. The county was prosperous, flourishing in the woollen industry, as well as the iron, steel and secondary metal trades, agriculture and shipping. By the beginning of the nineteenth century, the county also had a well-developed private banking system, with approximately 50 banks being recorded in the region (Crick and Wadsworth, 1936, pp. 200–201). Such banks were bound up in the local trades of the towns in which they were located. They also issued their own notes which were used and trusted by local communities. Bank collapses brought losses to depositors but also, because local banknotes were in such general use in the region, the impact upon confidence in the banking system as a whole led to rapid withdrawals from the banks, while the circulating medium of the district underwent a severe contraction.

The reliance upon the system of country banking in Yorkshire resulted in the county being particularly hard hit during financial crises. The crisis of 1825 had a national impact, but also ‘wrought havoc among the unstable Yorkshire’ banks and was felt with particular severity in the region (Crick and Wadsworth, 1936, p. 201). Sayers describes the ‘slaughter of the 1825 crisis among the Yorkshire private banks’ (Sayers, 1957, p. 17). In the town of Huddersfield, the collapse of the highly reputable private bank of Wentworth, Chaloner and Rishworth, which operated in other manufacturing towns and cities within Yorkshire - Leeds, York, Barnsley, Bradford and Wakefield - had extremely adverse effects on these industrial centres. The impact of the financial crisis upon individuals and trade in Yorkshire was thus profound. The prospectus of the York City and County published in 1829 declared that: ‘It is impossible to describe the accumulated misery of those failures entailed upon thousands of families and individuals.’[11] The severity of the crisis in Yorkshire helps to explain the enthusiasm with which the county embraced joint stock banking after the enabling legislation of 1826 was passed. In the decade following the legislation, twenty new joint stock banks were registered in Yorkshire alone. Crick and Wadsworth refer to the foundation of many of the new joint stock banks in the county as taking place in a 'blaze of local patriotism' (1936, pp. 202, 206) .

Other regions that had suffered from bank failures also favoured the development of joint stock banking in the 1820s and 1830s. In the North West of England, the Cumberland Union Banking Company was established in 1829 with the intention of servicing the area surrounding the town of Workington. Following a public meeting of people from the town to consider the formation of such a bank, the members of the meeting unanimously agreed that:

> As the trade and commerce of these towns have been seriously injured by the insecure system of banking which has hitherto prevailed, it is highly expedient that a bank shall be forthwith established in Workington on principles combining general security with individual accommodation (Crick and Wadsworth, 1936, p. 115).

The directors of the Cumberland Union also stated at the bank's foundation that: 'It is very remarkable, that, whilst some parts of the County have joint stock banks, the principal City of the County should be entirely destitute of a native joint stock bank establishment.'[12]

Another bank located in the North West of England, the Ashton, Stalybridge, Hyde & Glossop Bank, stated at a meeting of the bank's provisional committee in 1836 that: 'Any joint-stock bank founded as a local establishment should promote the prosperity of the district it embraces.'[13] A pamphlet recommending joint stock banking, entitled '*Suggestions for the Establishment of Banks in Manchester, Liverpool, and Other Towns, Under the Title of Union Banks*', came out of the North West region. It claimed that 'in no part of the kingdom… is a general improvement in our Banking system more desirable than this'.[14]

Joint stock banks established in other regions placed more emphasis upon the possibilities of profitability that could arise from new banking ventures, rather than broader issues of regional prosperity. In Nottingham, the founders of a new joint stock bank declared that:

> The district of Nottingham appears particularly favourable for the establishment and success of a joint stock bank. The manufacturing is thriving and extensive, there is a great body of wholesale dealers and merchants, an opulent and established gentry, a very numerous and wealthy tenantry, a large and well employed population.[15]

The East Midlands region in which the city of Nottingham is located had a very long-established and successful private banking system: the first recorded provincial banker in England was Thomas Smith of Nottingham, who started business in the late seventeenth century (Crick and Wadsworth, 1936, p. 243; Leighton-Boyce, 1958). The 1825 crisis did not hit private banks with such severity as in other parts of the country. As a result, joint stock banks forming in Nottingham emphasised the potential prosperity of their new type of institution, rather than lamenting the instability of their private counterparts.

Lending to industry

Evidence is clear that joint stock banks in this period lent to customers that were located in their local area or region. For example, Newton's study shows that the banks in Sheffield lent to the steel, cutlery, metal trades and coal mining businesses in the region (Newton, 1996). Hudson demonstrates that the banks of the West Riding of Yorkshire lent within their region to textile manufacturing companies (Hudson, 1986). The directors of the new joint stock banks were frequently businessmen themselves (industrialists, merchants, manufacturers) operating within the towns and regions that their banks served (Barnes and Newton, 2018b, pp. 325–331). Bank directors were recruited for their local intelligence and activity in local business networks. In 1844, two new directors of the Sheffield and Rotherham Bank were described as being 'well fitted from their commercial and general knowledge'.[16] One was the director of Lockwood Brothers (cutlery and tool manufacturer) and the other the owner of John Sorby & Sons, tool and file manufacturers (Newton, 1996, p. 72). The Coventry and Warwickshire Bank declared that its directors must be resident in Coventry, hence guaranteeing local knowledge.[17] Upon foundation, Ashton, Stalybridge, Hyde and Glossop Bank asserted that a local joint stock bank should 'rely upon the support of a resident proprietary and directory'.[18]

The result was an abundance of local commercial knowledge within the boards of joint stock banks that was pertinent when making decisions about to whom to lend (or not) in the region (Newton, 2010). If the applicant for an account or credit lived some distance from the bank, the directors lost the ability to draw upon this knowledge, thereby increasing risk for the bank. In 1835, the Liverpool Union Bank directors declined an application for an account as the individual was 'residing at too great a distance' from the bank.[19] In 1828, the Huddersfield Bank directors deferred a decision about lending £5,000 to Thomas and Richard Binney, stating that the directors were not 'sufficiently acquainted with the parties'.[20] An application to the same bank for £500 credit from a company in Leeds (20 miles away), secured by an individual from the same city, was met by the directors with a request for 'another surety as the parties are strangers to the directors'.[21] It was safer to lend locally and to customers that were known to the bank, or about from whom information could be acquired locally. If directors did not know a local individual applying for an advance, if they lived close to the bank, they could meet them personally.[22]

Working as a director did not mean working in the bank on a day-to-day basis, as many men in this role had businesses to run. The running of the bank and its branches was delegated to a manager/managers. For example, the directors of the Huddersfield Banking Company were happy to devolve decisions regarding applicants and lending to their experienced manager (Barnes and Newton, 2018b, p. 328). Other directors were more active participants in lending decisions. The board of the Cumberland Union Banking Company agreed on its foundation 'that at each monthly meeting a list of depositors and amounts and overdrawn accounts be laid before the directors and the manager not to discount any doubtful bills or let any account be overdrawn to the amount of £100 without communicating with the directors'.[23] The founding committee of the Nottingham and Nottinghamshire Banking Company declared that accounts were 'to be decided by the directors on their respective merits'.[24] The directors of the Bank of Liverpool agreed at the bank's foundation that 'a committee shall be appointed consisting of two directors, to be called "the committee of management" who shall advise with the manager from day to day as to its affairs', and that the board of directors should meet twice a week.[25]

Possessing knowledge and obtaining accurate information about potential borrowing customers was vital for the banks in their management of risk. The Bank of Liverpool declared that 'the following principle be the principle on which the affairs of the bank be conducted: that no account is desirable which does not yield a profit after making an adequate allowance for the risk incurred'.[26] Risk was heightened due to the regional hinterland of a bank's operation, in which customers were clustered in the same industry, as detailed in the previous section. But there were other sources of risk for these banks.

There are several examples whereby banks lent too heavily to one or two large-scale customers. When such companies ran into financial difficulties, or financial markets were unfavourable to lending, provincial joint stock banks were adversely affected. For example, in 1839, the failure of a customer of the Hull Banking Company, to which the bank had lent the equivalent of all its paid-up capital, caused a run on the bank and its branches. The Hull bank was eventually saved by the conversion of large bills into gold in London and Leeds, but after this event most of its branches were closed or sold (Crick and Wadsworth, 1936, pp. 209–211). In the 1850s, the Sheffield Union Bank lent large amounts to a single customer, Naylor Vickers and Co., a large steel manufacturing firm. When Naylor Vickers suspended in 1858, it owed the bank the equivalent of 73 per cent of the bank's paid-up capital, which represented 47 per cent of the bank's total corporate lending for that year. The Sheffield Union survived, but only with help from the Bank of England and loans from its own directors (Newton, 1996, pp. 73–74). Two large customers borrowed heavily from the the North and South Wales Bank, supported by re-discounting bills of exchange in London. This became a problem in 1847 when an international financial crisis saw discount rates rise and re-discounting in London ceased completely towards the end of that year. The North and South Wales Bank suspended payments. The bank survived through issuing preference shares and depositors accepting bills in return for not withdrawing money from their accounts. The bank made sure that it was not 'locked into' such large accounts again (Barnes and Newton, 2021; Crick and Wadsworth, 1936, p. 183)

Modern financial institutions utilise variable interest rates on lending to manage different levels of risk. During the first half of the nineteenth century, joint stock banks charged a standard four or five per cent interest on discounting and made profits by charging commission on the 'returns' of a bank account. For example, when a textile company applied for an account to discount bills of exchange at the Bradford Banking Company, it was permitted an account with a discounting rate of interest at 4 per cent and were charged 5 per cent commission on their returns on the account. If the company wished to apply for an advance, the interest rate would be 5 per cent and the commission rate would be 5 per cent.[27] Thus, the ability to mitigate risks through varying interest rates on lending was not an option that was available to these banks.

Yet from the evidence collected, it is clear that banks lent to local businesses and supported the industry and trade in the town or region in which they were located through the extension of credit, despite the risks this entailed. Examples of banks for which detailed lending data has been collected are provided below to illustrate both the local and supportive nature of lending by joint stock banks in the first half of the nineteenth century. There has been much written about the nature of bank lending in the later nineteenth century (after 1870) when banks amalgamated, developed London head offices, became more centralised in their decision-making and, as a result, more distant from borrowing customers, in particular provincial industrial firms. Bank failures and the adoption of limited liability after 1858 also had an impact on bank lending behaviour (Collins, 1989). Consequently, studies have found that lending outcomes of the banks became more conservative after the second half of the nineteenth century (Capie and Collins, 1992; Collins and Baker, 2003; Cottrell, 1979, p. Chapter 7). This has fed into the ongoing debates around British bank support, or lack of it, for domestic business customers (Scott and Newton, 2007).[28] Much less has been written about lending in the earlier period (before 1850), which is examined in this chapter.

The Bradford Banking Company was established in 1827 and located in the centre of the woollen textile industry in the West Riding of Yorkshire. It was a small bank, having been founded with only £20,000 of paid-up capital and did not establish branches. It remained a single unit bank until it was absorbed by London, City and Midland Bank in 1910 (Orbell et al., 2001, p. 112). In the first three years of its operation, customers applied for £200,578 worth of credit. Of this, 62 per cent (£124,850) was approved (or provisionally approved on the basis that additional information or security was required). Unfortunately, the occupation of most applicants was unrecorded in the minute books.[29] Where an occupation was provided, 42 per cent of applications came from those operating in local woollen and worsted industries. In terms of the location of applicants, Table 1 demonstrates the highly localised nature of the borrowing-customer base of the Bradford Bank. Over half of the applications for credit originated from those living or operating within Bradford itself; 5 per cent came from applicants in the two adjacent towns of Bingley and Keighley; a small amount of applications came from the city of Leeds (11 miles away from Bradford); 6 per cent came from smaller towns or villages surrounding Bradford; and the remaining applicants came from unspecified locations in Yorkshire. This was a small bank with a small radius of lending activity.

Table 1: Bradford Banking Company -– geographical origin of applications for credit, 1827-1830

Location of applicant	Amount of credit applied for (£)	Percentage of total credit applied for	Miles distant from Bradford centre (miles)
Bradford	107,100	53.40	
Bingley	9,000	4.49	5.5
Keighley	100	0.05	10.0
Leeds	548	0.27	11.0
Smaller towns/villages			
East Morton	6,000	2.99	8.4
Yeadon	1,100	0.55	6.9
Addingham	1,000	0.50	16.0
Shipley	1,000	0.50	3.5
Allerton	1,000	0.50	3.1
Windhill	400	0.20	3.8
Cleckheaton	300	0.15	6.3

Haworth	300	0.15	8.9
Idle	300	0.15	3.8
Pudsey	150	0.07	4.5

Source: HSBC Group Archives: Bradford Banking Company, Order Book No. 1, B2.

The Sheffield & Rotherham Banking Company converted from a private bank to a joint stock concern in 1836 and its head office was located in the town of Sheffield. Three of its directors owned businesses in the local area involving coal mining or the manufacture of cutlery and metal goods (Barnes and Newton, 2018b, p. 330). The bank immediately opened one branch at Bakewell (17 miles away in Derbyshire), following which between 1850 and 1907 (when it was acquired by William and Deacon's Bank Ltd.) another nine branches were opened (Orbell et al., 2001, p. 473). The board of directors' minute books reveal that from 1836 to 1840 there were a total of £70,530 worth of applications for credit made to the bank. Of these, 71 per cent were approved, 19 per cent provisionally approved (pending more information or security) and only 10 per cent per cent were declined. Of these applications, nearly 81 per cent originated from Sheffield or the villages surrounding the town. Three applications came from outside Yorkshire – two from the Birmingham Tin Plate Company and one from an individual in Bakewell. The latter was geographically close to the bank and the former was linked to Sheffield via its activity in metal manufacture. While the occupations of most credit applicants were not recorded (43.7 per cent), of the remaining, 19.4 per cent of applications came from the railway industry, 18.5 per cent from steel manufacturers and 18.4 per cent from a tin plate manufacturer, thus reflecting some of the main trades of the district. [30] Fifty per cent of applications offered security and 50 per cent did not. The approval rate for unsecured applications was slightly lower than that for applications offering security – 50 per cent versus 65 per cent. This was a very localised banking operation, but one that serviced local industries and offered credit on often generous terms, most specifically without requiring collateral security.

The Huddersfield Banking company was established in 1827 (see above) by a group of local men, three of whom were involved in the town's woollen industries (Barnes and Newton, 2018b, p. 328). The bank was cautious in its branching, opening two offices early in its operations, but selling them on to competitors soon after. The bank remined a single unit entity until it opened a branch in 1841, while by 1879 it operated four branches. The bank was absorbed by London, City and Midland Bank in 1897, when it had grown to one of the largest provincial banks, with £3.3 million deposits, a paid-up capital of £411,000 and fifteen branches (Orbell et al., 2001, p. 283). While those applying for credit from the bank were localised, as

Table 2 demonstrates, this bank had a slightly larger geographical sphere of activity than the other institutions examined here, with applications for credit extending up to 50 miles away from the bank's one and only office in Huddersfield. Of these requests for credit, 71 per cent were made with the provision of collateral security, for which there was a 59 per cent approval rate. The remaining 29 per cent of applications for advances were made with no security offered and the approval rate for these was 49 per cent - only 10 per cent lower than applications with collateral security offered.[31]

Table 2: Huddersfield Banking Company – geographical origin of applications for credit 1827, 1828, 1829

Location of applicant	Amount of credit applied for (£)	Percentage of total credit applied for	Distance from Huddersfield centre (miles)
Huddersfield	128,123	22.06	
Leeds	53,900	9.28	21
Saddleworth	44,218	7.61	14
Wakefield	43,460	7.48	14
Oldham	20600	3.55	22
Goole	4,500	0.77	49
Hull	4,300	0.74	76
Bradford	2,000	0.34	13
Barnsley	700	0.12	18
Clitheroe	400	0.07	48
Dewsbury	300	0.05	9
Tadcaster	100	0.02	38
Villages surrounding Huddersfield	104080	17.92	

Source: HSBCGA: Huddersfield Banking Company, Board of Directors Minute Books, H4

The Liverpool Union Bank was founded in the port of Liverpool in 1835 by a group of local merchants (Barnes and Newton, 2018b, pp. 325–326; Sayers, 1957, pp. 92–93). It did not open its first branch until 1877, rather focusing its business on Liverpool itself (Orbell et al., 2001, p. 324). This is clearly demonstrated when examining the applications for credit that were considered by the directors. Of the total £336,504 of advances applied for via the Liverpool Union in the three years after its foundations (1835, 1836, 1837), only two applications amounting to £1,000 came from outside the city of Liverpool. They were from applicants located in Dublin. Of total applications, nearly 87 were approved, 2.6 per cent were conditionally approved and only 10.7 per cent were declined. Occupational data for applicants is once again limited - 61 per cent of applicants had no occupation or company activity recorded in the minute books. Of the remaining applications where occupation was provided, 21.25 per cent were made by merchants, 13.37 per cent from shipping companies and 1.5 per cent from a sharebroker. As Liverpool was an international trading port and commercial centre, the activities of the applicants for credit therefore reflected the economic activities of the companies operating in the town itself. Fifty-nine per cent of applications for credit were made with collateral security offered and 92 per cent of these were approved by the board. Yet, 41 per cent of applications were made with no security offered and the success rate of these was 74 per cent, lower than the rate for applications for secured advances but remaining high.[32] Thus, credit was often extended on a generous basis.

Nottingham and Nottinghamshire Banking Company was founded in 1834 by local businessmen (Barnes and Newton, 2018b, pp. 329–330). It rapidly opened four branches in Newark, Worksop, Mansfield and Retford, and an exchange agency at Loughborough. The next branch in Southwell was not opened until 1874. By the time it was absorbed by London, Westminster & Parr's Bank Ltd. in 1919, it had 20 branches and 18 sub-branches (Orbell et al., 2001, p. 421). Applications for credit from the first three years of the bank's operations (1834-36) were £182,000 in total, with 87 per cent approved or provisionally approved, 12 per cent declined and 2 per cent postponed. Security was offered on 58 per cent of applications for credit, of which 79 per cent were approved. Forty-two per cent of applications were for unsecured advances, of which 42 per cent were approved. The majority of applicants were from the local area, as shown in Table 3. There were three applications for advances from a company in London and all were declined. Otherwise, the most distant applicant was located 28 miles from the centre of Nottingham.[33]

Table 3: Nottingham and Nottinghamshire Banking Company – geographical origin of applications for credit 1827, 1828, 1829

Location of applicant	Amount of credit applied for (£)	Percentage of total credit applied for	Distant from Nottingham centre (miles)
Nottingham	14,0245	77.13	
Loughborough	10,000	5.50	16.0
Ashby de la Zouch	2,200	1.21	22.0
Chesterfield	2,000	1.10	26.0
London	1,800	0.99	128.0

Mansfield	1,880	1.03	15.0
Worksop	1,000	0.55	28.0
Newark	400	0.22	21.0
Derby	400	0.22	15
Surrounding towns/villages	**13,760**	**7.29**	
Langwith			27.0
Shepshed			20.0
Quorn			18.0
Upton			18.0
Kirkby			17.0
Shardlow			15.0
Normanton			14.0
East Bridgford			13.0
Sutton Bonnington			13.0
Bingham			10.0
Bulcote			8.0
Plumtree			7.4
Long Eaton			6.9
Ruddington			6.3
Beeston			4.2
Arnold			3.7
Sneinton			2.7

Source: RBSGA: Nottingham and Nottinghamshire Banking Company, BDM, 574

Evidence from early nineteenth century joint stock banks demonstrates that the banks examined were local in nature. In particular, their borrowing customers were local, and banks lent on generous terms. As a result, it can be seen that these joint stock banks filled a need in regional economies where industry clustered to provide a stable and flexible system of lending to manufacturing, industry and commerce throughout England and Wales. Banks thus played a positive role in regional industrial economies and commercial communities before 1850.

Conclusion

This chapter began by considering recent calls by the Labour Party for banks in the United Kingdom to have a regional focus, and therefore a better and more supportive relationship with local business borrowers, with a knock-on effect of supporting the prosperity of regional economies. Within these entreaties, there was a sense that the British economy was imbalanced and that financial services, in particular retail banking, were too centralised in London, too removed from other areas of the United Kingdom, and consequently not serving business customers outside the capital well. Such calls have decreased in prominence since Keir Starmer became leader of the Labour Party. Instead, private enterprise has taken up the baton to promote regional banking. Not only has the Birmingham Bank been granted a licence, but other 'challenger' institutions are applying to the Bank of England for licences to open regionally focused banks and there are also plans in Wales and the South West of England to open co-operatively owned banks.

By examining the first half of the nineteenth century, it has been demonstrated that a regional banking system existed previously and that relationships between businesses and banks could be mutually supportive. Joint stock banking institutions in this early nineteenth century system were often founded by men operating in local business communities and were established after a wave of private bank failures in the 1825/6 financial crisis. These local business communities were usually formed of concentrated clusters of industrial or commercial activity, such as iron, steel and metal trades in Sheffield, woollen and worsted cloth manufacture in Bradford and Huddersfield, and maritime commerce in the port of Liverpool. The desire for a stable banking system which was of benefit to local and regional economies was strong and clearly demonstrated in several early joint stock bank prospectuses. In 2021, the reference of challenger banks looking to establish new businesses echoes these aspirations in their assertion that 'the major banks have lost touch with local business as more operations have been centralised' (Megaw, 2021).

Joint stock banking developed apace after 1826, with over 100 banks (plus their branches) being established before legislation passed in 1844 that halted their progress. The maps in Figure 1 clearly show the geographical spread of joint stock banking in England and Wales, with only a few 'gaps' in the map by 1839 – London and its surrounds, mid-Wales and only a thin collection in Cornwall.

Examining the customers that applied for credit from a selection of banks demonstrates that borrowing customers were local. This permitted bank directors and managers to assess with some confidence the creditworthiness of applicants through their local business knowledge and experience, as well as their local economic and social connections. Any customer or business that required vetting could be visited personally. Moreover, the terms on which this credit was extended were generous, and indeed it was often extended without collateral security. The local knowledge of directors and managers permitted such a flexible approach and it supported local economic activity in a positive manner. The regional nature of banking at this time is clear. Even the biggest banks were part of a local economic and social hub.

Lending on generous conditions, plus the concentration of borrowing to sectors of the economy that were clustered at the regional level, meant that cyclical business downturns or financial crises could be highly risky for these relatively small-scale banks. Joint stock banks did not differentiate their lending risks by charging variable interest rates. As a consequence, whilst demonstrating that a system of local and regional banking worked well in the early nineteenth century, even during this period there were risks entailed in such a geographically focused sphere of lending. This was exacerbated by the need to safeguard unbiased lending to local business (namely, no nepotism or cronyism) to ensure the stability of the bank itself and, more broadly, a non-discriminatory system of lending to enable the regional economy to flourish.

In the longer run, this style and system of banking was not sustainable. As the size of industry and businesses grew, local and regional banks struggled to meet their borrowing needs. Lending too much to a few customers had already caused instability in some institutions, as noted earlier. The risk of being over-committed to a few large-scale borrowers increased as the century progressed, especially as the scale of industry increased. Moreover, as risks in banking were exposed throughout the century, for example the City of Glasgow Bank failure of 1878 and the losses for shareholders with unlimited liability, joint stock banks looked to merge to provide a larger capital base and a greater volume of deposits to withstand shocks and crises. Costs in running large-scale institutions were also high and therefore banks realised that economies of scale could be achieved through merging. Twenty-first century would-be banks are looking to use such local connections to their advantage, 'hoping that the sense of local connection will encourage customer loyalty while enabling them to make strong credit decisions' (Megaw, 2021).

Could a regional banking system function in the twenty-first century to support regional economies? It would not be the same system that was operating in England and Wales before 1850. The banking landscape in the UK has changed enormously: its global reach; the size of borrowing required by global businesses; government and international regulation; the size of the few existing retail branch banks; and the complexity of financial services on offer all show that banking is very different in the twenty-first century as compared to the nineteenth. A system of regional banks would have to run alongside existing large-scale retail banks, the latter possessing the resources to lend safely to large-scale business and institutional customers. However, like the early nineteenth century joint stock banks, regional institutions can be run in a way in which they possess a superior knowledge of surrounding regional economies. In this way they could make decisions that might be viewed as too risky by a London head-office, but are seen as reasonable at a regional level, given the knowledge of the context of the borrower and the prevailing local economic conditions. Such institutions would have to be run in a way which ensured that bias in lending did not occur. This would ensure both bank stability and a sustainable lending portfolio. From a customer's perspective, greater trust and flexibility in bank/business relationships based on near proximity could ensure positive financial support both for growth but also through crisis. Megaw claims that twenty-first century would-be banks are looking to use such ties to their advantage, 'hoping that the sense of local connection will encourage customer loyalty while enabling them to make strong credit decisions' (Megaw, 2021). Support for regional economies through lending would be enhanced by such a system. The establishment of such a regional banking system would, however, require both political support as well as private enterprise to withstand the financial interest of London-based financial institutions that have a long track record of protecting their own interests (Scott and Newton, 2007).

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[1] https://www.theguardian.com/politics/2013/mar/14/ed-miliband-network-local-banks
[2] https://www.ft.com/content/3b9cec38-d68e-11e7-a303-9060cb1e5f44
[3] Private banks are not included in this data. These were usually very small institutions (unit banks) as they were limited to a maximum of six partners and were dependent on the private wealth of their owners. They did not operate at a regional level. In 1825 there were 650 private banks in England and Wales but by 1850 this had declined to 327, as joint stock banks became the dominant form of institution (Collins, 1988, p. 52)
[4] It branched later.
[5] The Leith Banking Company and Cumberland Union Banking Company both served Carlisle. Only the latter had several branches. While Bristol Old Bank had one unit, Stuckey's Bank branch network covered the South West.
[6] Most notable here were the Knaresborough and Claro Banking Company, York Union Banking Company, and Mirfield and Huddersfield District Banking Company, each with a medium sized branch network.
[7] The 1844 Bank Act changed the promotion procedure and halted the foundation of new banks.
[8] The 'gap' surrounding London and in the South East of England was due to the 1826 Bank Act, which specified that the Bank of England had a monopoly of joint stock banking in London and within a 65-mile radius form Charing Cross.

[9] HSBCGA: Prospectus of the Huddersfield Banking Company, H41/18, 9 March 1827.
[10] ibid.
[11] HSBCGA: York City and County Banking Company, Letters Book, October 1832, Y44. The original prospectus was published in December 1829.
[12] HSBCGA: Cumberland Union Banking Company, Directors Order Book, 25/83, 3/6/1836.
[13] NatWest Bank Archives [NWBA]: 10144, Ashton Stalybridge Hyde and Glossop Bank, Board of Directors Minutes [BDM], 2nd March 1836.
[14] HSBCGA: 'Suggestions for the Establishment of Banks in Manchester, Liverpool, and Other Towns, Under the Title of Union Banks', B41/8.
[15] RBSGA: Nottingham and Nottinghamshire Banking Company, BDM, 574, 8 Nov. 1833.
[16] RBSGA: Sheffield and Rotherham joint Stock Bank, Annual Report, 7th February 1844.
[17] LGA: 045, Coventry & Warwickshire Banking Company, BDM, 24th October 1835.
[18] RBSGA: 10144, 2, Ashton Stalybridge Hyde and Glossop Bank, BDM, 2nd March 1836.
[19] Lloyds Bank GA: Liverpool Union Banking Company, BDM, Book No. 093, 29/10/1835.
[20] HSBCGA: HBC, H4, BDM, 11 Jan. 1828
[21] HSBCGA: Huddersfield Banking Company, BDM, Book H4. 7/3/1828
[22] For example, see HSBCGA: Huddersfield Banking Company, BDM, Book H4. 11/6/1827
[23] HSBCGA: Cumberland Union Banking Company, Directors Order Book, 25/83, 9/11/1836.
[24] RBSGA: NNBC, BDM, 574, 7 Apr. 1834.
[25] Barclays Bank Archives: Bank of Liverpool, board minutes, 38/5557, VOL 1 1831-1841, 22nd April 1831 and 2nd May 1831.
[26] Barclays Bank Archive, Bank of Liverpool. Private Minute Book, 26/50, No. 1, 1834-1869.
[27] HSBCGA: Bradford Banking Company, BDM, Book No. 1, 1/1/1829
[28] The Macmillan Report of 1931 identified a lack of bank lending to industrial customers, particularly small- and medium, sized enterprises, thereafter christened the 'Macmillan Gap'.
[29] 40 per cent of applications examined in the archival sources had no occupation verified for the individual or the company.
[30] All data collected from RBSGA: Sheffield and Rotherham Banking Company [SRBC], BDM, SR/1/1, 01095S.
[31] The average size of unsecured application was slightly lower at £950, in contrasted to those applications for credit where security was offered, with an average size of £1,488. All data from HSBCGA: Huddersfield Banking Company, Board of Directors Minute Books, H4. See also (Barnes and Newton, 2018b, p. 334)
[32] All data collected from Lloyds Bank Group Archives: Liverpool Union Banking Company, BDM, Book no. 093.
[33] All data collected from RBSGA: Nottingham and Nottinghamshire Banking Company, BDM, 574.