Marketing colonial debt in London: Financial intermediaries and Australasia, 1855-1914

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‘Accept agreement bastard’.
(‘Accept [the] advice of [the] Bank of England’).
Cipher telegram, Queensland Colonial Secretary to Agent-General, May 1884.2

Contemporary financial globalisation since the 1970s has been characterised by the dramatic acceleration of financial flows across national boundaries and a growing awareness on the part of policy-makers and commentators of the potential constraints placed on governments by a country’s connections with international financial markets and their associated business, regulatory and international organisations.3. This paper begins to explore these themes with reference to the first period of comparable globalisation between 1850 and 1914 by examining the links between a particular group of development-oriented British colonies of recent settlement and the

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2 Text repeated in Hemmant to Colonial Secretary, 22 May 1884, Queensland State Archive: (QSA), RSI13111/207.

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financial intermediaries that provided them with access to the London capital market during that period.4

The Australasian colonies (five on the Australian continent, Tasmania and New Zealand) are of interest for several reasons. They were high-income, relatively open economies, heavily dependent on export-oriented primary industry and sustained capital inflow.5 They were formally part of the British Empire but practically self-governing (and for this reason have been described as exchanging 'political dependence for a place in a wider and looser framework of “free-trade imperialism”').6 They were linked closely to each other and remained fundamentally extensions of British economic enterprise, yet were also taking their place in an international system of multilateral trade that was taking shape from the 1870s.7 In all these respects, their development, like that of several other regions of recent settlement, was a direct consequence of, and contributor to, the growth of a world economy during the nineteenth century in which British markets, business organisations and institutions were the most dynamic elements.

Inevitably, their involvement in international capital markets was marked with the same characteristics.8 When they started overseas public borrowing in the mid-1850s they turned automatically to London (see Table 1). Their first sales of bonds to British

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4 The characterisation of the period in these terms has become a commonplace, e.g. Held et. al., pp. 421-24; K. H. O'Rourke and J.G. Williamson, ‘When did globalisation begin?’, European Review of Economic History, v. 6 (2002), pp. 23-50.


8 The standard work is A. R. Hall, The London capital market and Australia 1870-1914 (Canberra, 1963). This paper revises some of the material in chapter 4, which did not have the benefit of access to bank or colonial government archives. L. E. Davis and R. E. Gallman, Evolving Financial Markets and International Capital Flows: Britain, the Americas, and Australia, 1865-1914 (Cambridge, 2001), contain a substantial study within a study largely based on the existing literature. London capital market operations are also discussed in N.G. Butlin, Investment in Australian Economic Development 1861-1900 (Cambridge, 1964), pp. 334-51, but see the comments below.
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investors coincided with the beginning of the major phase of British capital exports which continued until 1914, and they remained active in some form in London throughout the period (and beyond) when the Britain was the world economy’s pre-eminent international lender. Governments were the main recipients of overseas funds – an important factor in determining the visibility and immediate influence of foreign capital in the antipodes. While the region as a whole accounted for approximately 10 per cent of British overseas portfolio investment between 1865 and 1914 (there are no estimates for the decade before 1865), government borrowers absorbed 65 per cent. A study of the Australasian colonies, therefore, allows us to examine several themes in the history of the world economy before 1914, including those that relate to questions of power, dependent development and the relationships between governments and foreign business organisations, from the perspective of a distinctive set of participants. Our interest here is in the financial intermediaries that Australasian governments chose to conduct their overseas borrowing operations. The span of these activities allows us to examine their initial choice of agents and to trace the main changes in both intermediary and their functions. Bearing in mind that this coincided with the initial mid-century acceleration of British capital exports, this will also enable us to understand more about the organisational and institutional developments that accommodated this growth and mediated between borrowers and markets.

The term ‘financial intermediaries’ refers here to the organisations – usually banks – that sold debt on behalf of colonial governments. Two other types of organisation may

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10  I. Stone, The Global Export of Capital from Great Britain, 1865-1914: A Statistical Survey (Basingstoke, 1999), tables 4 and 9. The exclusion of capital in foreign direct investment that was created other than by public subscription, or bank and other lending, makes this an overestimate of the overall government share in the distribution of British investment in Australasia.

11  The words ‘institution’ and ‘organisation’ are used here in the senses defined by North to distinguish between the rules, norms, customs and conventions that regulate economic conduct (‘institutions’) and the bodies of economic agents (‘organisations’ like firms) whose activities are regulated by institutions, D.C. North, Institutions and Institutional Change in Economic Performance (Cambridge, 1990), pp. 3-6.
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also be distinguished in connection with the marketing of colonial loans: first, the member firms of the London Stock Exchange which, until the 1890s constituted a large part of the primary market for colonial debt and later arranged its underwriting; and, second, the London Stock Exchange itself as the regulatory body that determined the market’s institutional framework and ultimately controlled whether a loan was saleable in London. These three types of organisation can be categorised respectively by function as those that marketed debt, those that constituted the market for it, and those that decided the conditions under which it is sold. We are concerned here with the first type. The argument is not that they, or any other of the organisations just mentioned, were uniquely associated with the marketing of Australasian capital issues but that a study of their activities with respect to Australasia contributes to our general understanding of the organisational and institutional matrix that facilitated the process of financial ‘globalisation’ between 1850 and 1914.

The paper is in three parts. The first examines the colonies’ original entry into the London market and the factors that influenced their initial choice of agents. The second summarises and interprets the main changes in agency relationships. The third comments on the factors that influenced the on-going relationship between borrowers and intermediaries. The latter has obvious relevance for arguments about the nature, scope and forms of power exercised by financial organisations and markets before 1914, especially as they apply to British regions of recent settlement within the formal empire. The paper’s main purpose in the first instance is to map out the key relationships between particular borrowers, individual firms and the market as a preliminary to developing those arguments further. The conclusion nevertheless consider some of the broader issues it raises.

Choosing agents

Private investment flows into Australasia grew especially from 1830s with the expansion of pastoral industry in the Australian colonies and the establishment of the

12 For an important discussion, Cain and Hopkins, British Imperialism … 1688-1914, ch. 8.
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first London-registered banks (the ‘Anglos’) to operate in the region.13 Three factors caused colonial governments to become directly involved in local capital formation: the failure of early attempts to establish private railways; the population influx of the 1850s, with the consequent strain on urban and transport infrastructures; and the advent of responsible government during the same decade.14 Subsequently, colonial governments continued to take the lead role in the creation of social overhead capital – most notably the railways – assisted immigration, and land settlement. Apart from the proceeds of land sales, these activities were financed by public borrowing. The process began somewhat differently in the New Zealand, with provincial administrations shouldering the initial burden, and the General Government borrowing to discharge the liabilities of New Zealand Company and finance the Maori wars. But the ultimate ends were the same.15

Initially, colonial treasuries were able to tap into the income generated by the gold discoveries in eastern Australia by selling debt locally (or, in New Zealand’s case, across the Tasman). Securities were made attractive to potential investors – banks, merchants, and retiring gold diggers - by being remittable to London. Arrangements were made with a British official, the Agent-General for the Colonies, or one of the Anglo or colonial banks, to service the debt and repay the principal. By the second half 1850s, government needs exceeded the local funds available for investment in public securities. The scale of remittance of locally-issued debt meant that they were already drawing on British capital at second-hand; direct sales in London allowed them to acquire these funds at source. It nevertheless required the appointment of financial agents to carry out a far wider range of functions, with the added responsibility and monitoring problems this involved. Colonial ministers had three alternatives. They could continue the existing arrangements with the Agent-General

13 S.J. Butlin, Foundations of the Australian Monetary System 1788-1851 (Sydney, 1953/68) pp. 225-27
15 The ‘Vogel boom’ of the 1870s is well-known, but little has been written about New Zealand borrowing. See M. McKinnon, Treasury: The New Zealand Treasury 1840-2000 (Auckland, 2003), pp. 43-49; other remarks are based on this author’s unpublished research.
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for Colonies (this official was subsequently re-named Crown Agent and reinforced by additional appointments). Like many foreign governments, they could engage a contractor (probably a London merchant bank), who would guarantee the proceeds of an issue and take responsibility for marketing it. Finally, they could employ an agent to sell the loan on their behalf. Most obviously, this could be done by direct agreement with a bank. But a colonial official or other person might also be appointed and either offer a loan in their own name or select another intermediary to act on their behalf.

In the first instance, no single type of intermediary or mode of sale was chosen (see Table 1), but by the mid-1860s the appointment of agents who sold loans by public tender had become the norm. The factors that influenced the initial choice of intermediary nevertheless continued to be important. They included: the presence of a bank in the colony; the competitiveness of a tender – including the willingness to provide short-term credits – if bids for an agency were invited (as in the cases of NSW and Victoria); the prior existence of banking and agency relationships (the Union Bank of Australia was the government banker in New Zealand and Queensland; the Consolidated Bank had been the service agent for Tasmanian securities remitted to London); the success with which firms were able to use their influence to capture rents; and, allied to the latter, local nationalism, business rivalries, and personal connections between colonial ministers and banking firms.

Each of these factors is illustrated by Victoria’s choice in 1858 of six banks active in the colony as joint agents for the sale of its first loan in London, an issue of £7,000,000 over three years, which would be the largest operation attempted by any Australasian colony for several years to come. Overseas borrowing by Victoria had been anticipated since the middle of the decade. In July 1855, Governor Hotham sounded the London merchant bank Baring Brothers about prospects in the City. But an approach to a London firm was by no means inevitable. In September that year, New South Wales (NSW) had invited tenders from the Sydney banks for its London

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16 The latter was the system used by South Australia and New Zealand throughout the nineteenth century.

17 Sir C. Hotham to T. Baring, 20 July 1855, ING Baring (Baring): HC6/4.5.1
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financial agency and chosen a local institution, the Bank of New South Wales (BNSW). This firm had been quickly displaced by the another, the Oriental Banking Corporation. Although an Anglo, it had been active in the colony since 1852. By contrast, in Victoria the prevailing view remained that a loan would be best marketed by an established City firm. In 1857, a Select Committee of the Legislative Assembly recommended the issue of a large loan to finance railway construction, but that ‘prior to the debentures being put on the London market, the loan houses of England be invited to tender for the amount of loan required’. In December, the Haines ministry formally invited Barings to act as either contractors or agents for the railway loan. Barings immediately sent to the colony Hugh Childers, a future Liberal Chancellor of the Exchequer and former colonial official who had served with Haines in the first ministry under responsible government, with full powers to conclude an agreement. He arrived in the colony in May 1858 and offered terms for both the agency of the entire loan and the purchase of a first tranche £1.5 million.

By May, however, circumstances in the colony had changed. While the majority of the bankers interviewed by the Select Committee in 1857 had recommended the appointment of a London house to sell a future loan, there had been a change of ministry since Childers’ departure from England. Several of its leading figures had been his opponents in colonial politics and retained close personal connections to

18 ‘Government Debentures’, NSW, Votes and Proceedings of the Legislative Assembly … with the various Documents connected therewith (V&P LA), 1856-57, v. 2, no. 128-A.
21 H. Ebden to Messrs Baring Brothers and Co (BB), 15 Dec. 1857, Baring Archive, ING Barings (Baring): HC6/4.5.3
22 BB to Ebden, 16 Feb. 1858 and idem, no date, ‘Correspondence Respecting the Negotiation of the Proposed Railway Loan’, Vic., LA Papers, 1857-58, v. 2; H. Childers to BB, 15 June 1858.
23 ‘Select Committee … upon Railways’, qq. 1712, 1905-6, 1955, 2092, 2106, 2159. The majority were local managers of the Anglos. The only dissenter was the manager of the Bank of Victoria, who suggested a similar arrangement to that between NSW and the BNSW, q. 1851.
local banks which they had promoted earlier in the decade. John O’Shanassy, the Colonial Secretary and Premier, remained Governor of the Colonial Bank of Australasia (est. 1855); Henry Miller, the Commissioner of Trade and Customs, was the Chairman of the Bank of Victoria (est. 1852). Both banks had been launched as native creations whose interests were closely identified with the colony.\textsuperscript{24} Subsequently, Miller had aggressively used his political position to obtain a share of the Public Account for the Bank of Victoria.\textsuperscript{25} Within a few days of Childers’ arrival, that Bank’s manager invited his counterpart at the Union Bank of Australia to join the banks that held public monies in bidding for the agency of the £7 million loan.\textsuperscript{26} After obtaining an assurance that the Government would receive a formal proposal, the consortium of six banks submitted a tender, which was accepted in early June.\textsuperscript{27} The banks offered to act only as agents for the loan, but promised to advance up to £1.8 million in anticipation of receipts.\textsuperscript{28} Barings had only been willing to commit itself to £100,000.\textsuperscript{29} The consortium’s tender was clearly the better one and addressed a perennial colonial concern with obtaining the maximum amount of short-term credit before the realisation of a loan. But the suspicion of collusion hung over the entire transaction. Blackwood of the Union believed ‘that constituted as the Cabinet now is the offer of that firm would have been rejected’.\textsuperscript{30} In the Legislative Assembly, O’Shanassy denied that he had been influenced by his connection with the Colonial and played the nationalist card: ‘we, as a Government, have not permitted any person,

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25 H. Nunn (ed.), \textit{Select Documents of the Nineteenth Century} (National Australia Bank Collection) (Melbourne, 1988), v. 1, p. 346, ‘Select Committee on Government Banking, 13 Dec. 1853’ and note 42; also, pp. 341-2, Manager to Colonial Secretary, 7 Feb. 1853.

26 J. Blackwell to J. Cummins, 15 June 1858, ANZ Group Archives (ANZ): U/118/1.

27 Blackwell to Cummins, 15 June 1858, ANZ: U/118/1; Blackwood and others to Treasurer, 31 May 1858, ‘Correspondence … Railway Loan’.

28 Blackwood and others to Treasurer, 31 May 1858, ‘Correspondence … Railway Loan’.

29 Childers to Geo. Harker, 19 May 1858, ‘Correspondence … Railway Loan’.

30 Blackwell to Cummins, 15 June 1858, ANZ: U/118/1; also Childers to BB, 15 June, Baring: HC6/4.5.5.
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foreign or domestic, to traffic in our bonds … [W]hatever they will ultimately realise, the country will reap the benefit of it’. ³¹

As far as we know them, the banks’ motives in co-operating had been mixed. For the Union, it provided an opportunity to regain a share of the public account. ³² The Australasia (another Anglo) joined reluctantly, partly for fear of forfeiting its own share.³³ For the six banks collectively, co-operation allowed them to retain control of the exchanges.³⁴ Noel Butlin described the ‘machinery of flotation’ they created, and the lessons learnt from the first London sales of Victorian securities as ‘basic to the [Australian] public loan operations of the rest of the century’, but he overestimated both their novelty and significance.³⁵ The arrangement also proved unworkable in ways that ultimately favoured metropolitan institutions. Neither the contracting banks nor their representatives in London could agree about who should service the debt. There was even a question over whether a London bank should be asked to bring out the loan on their behalf.³⁶ In the event, the government (with Miller at the forefront) pushed through the appointment as service agents of the London correspondents of the two purely local institutions that had close ties to ministers.³⁷ Tenders would be

³¹ Melbourne, Argus, 5 June 1858
³² Blackwood to Cummins, 15 June 1858, ANZ: U/118/1.
³³ C. Falconer to Secretary, Bank of Australasia, London, 15 June 1858, ANZ: A/8/35.
³⁴ J. McMullen to Cummins, 10 June 1858, ANZ: U/102/5.
³⁵ Butlin, Investment in Australian Economic Development, pp. 340-45; quote from p. 342. There is no evidence that other colonies were influenced by the Victorian example; rather, they and their agents drew on a common stock of possibilities regarding mode of approach (agent or contractor); form of sale (e.g. private or public, tender or fixed-price); short-term credits; and remittance that were well-known to both the market and financiers. The association between a loan agency and government bank account was not particularly novel, nor inevitable. Finally, as regards the employment of an association of local banks, only South Australia used a similar agency for an issue in 1879 (see below). Queensland and New Zealand rejected the arrangement for both their banking accounts and London agencies, regarding them as an invitation to collusion. New South Wales declined a tender from the ‘contracting banks’ of Sydney in 1880, but appointed them for the working of its local accounts 1885-89, before reverting to a single bank, the BNSW. South Australia also arranged its local banking through the associated banks of Adelaide following the suspension of the National Bank of Australasia in 1893, but then switched to the Bank of Adelaide.
³⁶ Cummins to Blackwood, 16 Aug. 1858, ANZ: U/245/2; Falconer to Secretary, Bank of Australasia, 15 June 1858, ANZ: A/8/35.
³⁷ Blackwood to Cummins, 16 Oct. 1858, ANZ: U/118/1.
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opened at the London and Westminster (L&W), while interest payments would be made by that bank and the London Joint Stock. Thus, despite Barings’ failure to secure Victoria’s business in 1858, some commission for the colony’s agency would be diverted to metropolitan firms and the conditions created for its eventual transfer to one of them during the 1880s.

**Changing agents**

Between the 1850s and the turn of the century, three broad changes occurred in the agencies employed by the Australasian colonies. The first, a change in local agent, was common up to the 1880s but not invariable. It was generally associated with a transfer of the public account. NSW switched from the BNSW to the Oriental (then the largest of the British overseas banks) in 1857 and back again in 1868.38 Queensland moved from the Union to the Queensland National Bank (QNB) in 1879.39 South Australia changed its banker at least twice and experimented once with issuing through a consortium of Adelaide banks before reverting to the former method of negotiating loans through its Agent-General and London banker.40

The only exception was New Zealand. In 1861, the general Government transferred its account from the Union to the recently created Bank of New Zealand (BNZ).41 But the latter’s weakness and the damaging effects of the Maori wars on its credit, led the colony to float its loans from the mid-1860s with the assistance of the Crown Agents. Wood, the Colonial Treasurer, explained from London in 1864: ‘from all the information I have been able to obtain, I am decidedly of opinion that the loan will appear on the market in a more favourable manner through the Crown Agents than

38  Holder, v. 1, pp. 319-20, 328-29.
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through the Bank [of New Zealand]. During the 1870s, the persistent weakness of the colony’s credit persuaded another minister in England, Sir Julius Vogel, to approach Rothschild about contracting for a loan in early 1875. The loan was a relative failure and Rothschild declined to commit itself to the colony’s next issue. But by then Vogel was negotiating with the Bank of England about the inscription the colony’s loans. In anticipation, in 1878 the Bank offered a New Zealand loan for £3 ½ million.

Table 2. London bankers and loan agents of the Australasian colonies, 1900

<table>
<thead>
<tr>
<th>Colony</th>
<th>Banker</th>
<th>Loan Agent</th>
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<tbody>
<tr>
<td>New South Wales</td>
<td>London and Westminster</td>
<td></td>
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<tr>
<td>New Zealand</td>
<td>?Bank of New Zealand</td>
<td>Bank of England</td>
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<tr>
<td>Queensland</td>
<td>Queensland National Bank</td>
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<tr>
<td>Victoria</td>
<td>Associated Banks</td>
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<tr>
<td>Tasmania</td>
<td>London &amp; Westminster</td>
<td>London &amp; Westminster</td>
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<tr>
<td>Western Australia</td>
<td>?London &amp; Westminster</td>
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<tr>
<td>South Australia</td>
<td>Bank of Adelaide</td>
<td>Bank of Adelaide</td>
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? indicates to be confirmed

The New Zealand loan that year was the first issue for a colonial government by the Bank of England and began the second stage in the development of agency relationships which ultimately led to the transfer of all but one of the Australasian agencies from colonial firms to two metropolitan banks: the Bank of England (New

42 R. Wood to Colonial Secretary, 25 June 1864, in ‘Papers Relative to a Loan of £3,000,000 Sterling for the Service of New Zealand’, NZ, Appendices, 1864. B-2.

43 ‘Correspondence relative to the Negotiation of £4,000,000 Loan’, NZ, Appendices, 1875. B-5; R. Dalziel, Julius Vogel: Business Politician (Auckland, 1986), pp. 198-200.

44 N.M. Rothschild & Sons to Vogel, 18 Oct. 1875, in ‘Correspondence relating to Unnegotiated Balances of Unguaranteed Debentures’, New Zealand, Appendices, 1876, B.-7.

45 New Zealand Loan Agents to Colonial Treasurer, 7 June 1878, in ‘Raising of the Loans of £3,500,000 of 1876 and 1877’, New Zealand, Appendices, 1878. B-4.
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Zealand, 1878; Queensland, 1884; and NSW, 1884) and the London & Westminster (Victoria, 1885; Tasmania, 1889; and Western Australia, 1891). This was generally associated with a separation of the loan agency from a colony’s general banking business in London (see Table 2), and, with one exception (NSW in 1906, which switched to its London banker, the L&W, as the issuer of its inscribed stock because of dissatisfaction with the Bank of England’s charges), there were no further changes until the end our period. The separation of the loan agency from the working of a London account, however, did not necessarily mean that the local banks ceased to be involved in a colony’s overseas operations in the capital market. As in Queensland’s case, its banker might continue to advise about the terms and timing of new issues; support and protect them when offered to the public; and sell Treasury Bills. They also continued to offer corporation loans (some of which were substantial) and market company issues.

The final development in agency relationships occurred with the universal adoption by the Australasian governments between 1899 and 1901 (Table 3). This did not involve a change of financial agents, but brought about a considerable decline in their active participation in the negotiation of the terms and timing of new loans. It was also associated with the rise of a single broking firm, R. Nivison & Co, which – partly through its association with London & Westminster (and, in Queensland’s case, with

46 New Zealand: H. Chubb, Secretary, Bank of England, to Sir J. Vogel, 17 Nov. 1875, ‘Papers relating to the Proposed Inscription of Stock by the Bank of England’, NZ, Appendices, 1876, B-6; Loan Agents to Colonial Treasurer, 7 June 1878, ‘Raising of the Loans of £3,500,000 of 1876 and 1877, Correspondence relative to the’, NZ, Appendices, 1878, B-4. NSW: G. Eager to S. Smith, BNSW, 9 Aug. 1884, in Correspondence between the Government of New South Wales and the Bank of New South Wales (Sydney); F. May to Agent-General, NSW, 2 Sept. 1884, Bank of England Archive (BoE), AC30/52. Queensland: W. Hemmant to Colonial Secretary, Queensland, 30 April 1884, with attachments, QSA: RSI13111/207. Victoria: R. Murray Smith to Manager, L&W, 21 Feb. 1885, Public Record Office, Victoria (PROV): VPRS1225/2, 82R/6277. L&W issues the Tasmanian and Western Australian loans of 1889 and 1891 respectively (see Prospectuses dated 11 April and 8 July).


49 Lists of service agents can be found in the Investor’s Monthly Manual.
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the QNB) – managed virtually to acquire the entire underwriting business for the self-governing colonies and India. The only exception again was New Zealand, which continued a relationship with another colonial specialist, J.A. Scrimgeour & Co., that dated from the period when its loans were issued by the Crown Agents. By the 1920s, the Governor of the Bank of England was describing these firms as ‘issuing brokers’. They became critical to any loan operation because no underwriting could be arranged until they had agreed its terms and timing; and, without underwriting, financial agents would only advertise an issue, if at all, at a substantial discount. This in turn left the latter with responsibility merely for the ‘back office’ aspects of a flotation (e.g. receipt of subscriptions, allotment, issue of scrip and stock), the provision of banking facilities, debt service, and the management of stock.

Several influences operated at each stage in the development of agency arrangements. In part, they were associated with factors within the colonies; in part, with institutional developments in London and the colonies’ persistence in launching large loans. Changes between local agents were generally associated with a colony’s need to secure short-term credits pending a new loan issue, or a transfer of general banking arrangements. Often the two were linked, though changes might be initiated by either the colonial governments or the firms that held their accounts. The potential lock-up of bank funds arising from advances in anticipation of loan receipts was a persistent problem for agents. During 1860s, in particular, over commitment by colonial treasuries, poor communications, and periodic plunges in colonial credit meant that governments demanded advances well in excess of those originally agreed. In October


51 Montagu Norman Diary, 14 and 27 February 1928, BoE: ADM34/17; also Theodore Schilling, London als Anleihemarkt der englischen Kolonien, (Stuttgart und Berlin), 1911, p. 46.

52 E.g. A. Dobson to Premier, 20 Sept. 1901 in ‘Loan - £450,000; Inscribed Stock’, Tasmania, Journals of the House of Assembly (with Appendices) (Appendices), 1902, no. 48; Memorandum by Adm. Sir H. Rawson (Governor of NSW), n.d. but c. July-Nov. 1905 [when Rawson was visiting London], State Records of New South Wales (SRNSW): CGS 34, 5/2731.1.
1865, NSW’s combined liabilities to the Oriental were just under £700,000. The following March, the Union’s advances to Queensland approached £450,000, equal to more than two-third’s of the colony’s public revenues that year. Within a few years, both banks had terminated their agreements with those colonies. On other occasions, banks simply refused to take up London accounts, or required strict limits to London advances as a condition: in 1865, the BNSW happily abandoned an agency for NSW when it discovered the scale of that colony’s liabilities in London and the Union declined to take up New Zealand’s account again.

Governments were also prepared to abandon established relationships to secure further credits in London. During the panic following the failure of the City of Glasgow Bank in October 1878, South Australia offered its account to the Union when it was unable to obtain sufficient funds from its banker, the National Bank of Australasia (NBA). When the Union declined, it contemplated a similar offer to the Bank of England, even though the latter had twice refused to provide credit. The colony weathered the crisis with assistance from the NBA’s banker, the London Joint Stock, but arranged to issue its next London loan through a consortium of Banks on the condition they provided substantial credits in advance.

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54 J. Turner, Manager, UBA, Brisbane to Secretary, UBA, 16 March 1866, ANZ: U/35/3.


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Finally, as in the case of Queensland’s move from the Union to the QNB in 1879, the routine transfer of a banking contract between institutions might also lead to a change of London agent. The circumstances again illustrated the combination of personal interest and local nationalism that influenced decisions about banking arrangements. Until taking office that year, the Colonial Treasurer and Premier, Thomas McIlwraith, had been a Director of the QNB. Two of his ministers remained Directors, while McIlwraith himself continued a business partnership with the Bank’s general manager, eventually running up personal overdrafts exceeding £328,000. But the Bank’s name also indicated the scale of its aspirations. As with the Victorian colonial bank creations of the 1850s, it had launched itself as ‘a purely local Bank’ that would end the Colony’s dependence ‘on foreign institutions for the transactions of its monetary affairs’. For the government, partnership with a local institution created a further means of promoting colonial development while removing its finances from the scrutiny of a distant ‘foreign’ firm.

The second significant change in colonial loan agencies – their transfer to English banks – was initiated by institutional change in the United Kingdom that ultimately derived from the colonies’ desire to widen the market for their securities. In this respect, Davis and Gallman are right in suggesting that the transfer was associated with the wish to improve the standing of their securities in the eyes of the investing public. But the changes that actually occurred were not an inevitable consequence. The imperial Colonial Stock Act of 1877 was inspired by similar legislation of 1874 applying only to Canada and incorporated parts of the National Debt Act of 1870. It allowed the composition of stamp duty paid for transfers of colonial securities inscribed in London but also sanctioned the creation of stock certificates transferable to bearer that could be exchanged for inscribed stock (and vice versa). It therefore

58 For the correspondence leading to this and the agreement with the QNB, see ‘Bank tenders for the Government Account’, Qld., V&P LA, 1879 2nd session, v. 1; ‘Memorandum of Agreement between Government and Queensland National Bank Ltd’, ibid.

59 Blainey, Gold and Paper, pp. 198-200, 208.

60 QNB Board Minute Book No. 1, 15 March 1872, in Nunn, vol. 2, p. 308.

61 Davis and Gallman, p. 632.
created the need to establish London registers of inscribed stock and entrust their
government to pass legislation similar to that previously enacted for the Canadians.
Vogel’s motive was to encourage trustees to invest in colonial loans by offering them
better security than that represented by the unregistered bearer bonds the colonies
had customarily issued.62 The management of registers of colonial stock nevertheless
involved both considerable work and significant responsibility. Vogel told the
Secretary or State, Lord Carnarvon:

Such a power [to issue the Bonds, and to make the Colony liable for the
inscription] might, obviously, be misused; and it would be impossible to confide
it to any institution but one of the highest character. For that reason – besides
that the Bank of England is accustomed to duties of the kind – it is almost
essential that inscription of New Zealand Stock should be done through the
Bank of England, if it is to be made a success.63

The Colonial Stock Act itself did not place any restrictions on the type of agent that
could act as registrar. Yet, while the view commonly prevailed that only a small
number of British firms offered the prestige, facilities and security to inscribe colonial
stocks, neither colonists nor London bankers automatically regarded the transfer of
loan agencies as an inevitable consequence. In Victoria’s case, the appointment of the
L&W as its registrar in 1883 preceded the movement of its issuing business to that
firm by two years.64 Moreover, although the decision to take advantage of the
Colonial Stock Act was clearly a catalyst, the change did not occur simply because the
colony was attracted by the superior reputation of the London bank. As we have seen,

62 Vogel to Dr. Pollen, 31 March 1876, in ‘Papers relating to the Proposed Inscription of Stock by the
Bank of England’, NZ, Appendices, 1876, B-6.


64 Murray Smith to H. F. Billinghurst, Country Manager, L&W; idem to Treasurer, 12 Jan. 1883,
PROV: VPRS 1225/1, 84R/6144.
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the L&W had been providing facilities for the issue and service of Victorian loans since the colony first entered the London market in 1857. By the early 1880s, the colony’s existing arrangements had outlived their usefulness and the practice of raising loans through the agency of a London committee representing by now ten associated banks was ‘cumbrous and obsolete’. On its side, the L&W itself hesitated ‘to say or do anything which might appear even in a remote degree to prejudice the position of the Associated Banks’. Equally, without any reason to disturb existing arrangements, the roles of loan agent and registrar might remain separate. In 1883, South Australia made arrangements to have its stock inscribed by Glyn Mills Currie & Co. but continued to leave the actual issue of loans to its Agent-General and London banker, the NBA.

In the cases of NSW and Queensland, the initiative for the change of loan agent came from the registrar itself, in what can only be described as clear instances of rent-seeking. Following New Zealand’s example, in 1883 the two colonies both made arrangements with the Bank of England to manage stock that would initially be created by the issue of convertible debentures. In each cases, after both colonies had committed themselves beyond any possibility of withdrawal, the Bank told their representatives that it must also issue their inscribed stock as a condition for acting as the registrar. William Hemmant, the acting Queensland Agent-General, reported in January 1884: ‘The Bank consider that if they give their prestige to any Colony by

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65 Murray Smith to Treasurer, 27 July 1883, PROV: VPRS 1225/2, 85R/1263.

66 Murray Smith to Treasurer, 26 September 1884, ibid., 85R/6277.


68 Sir S. Samuel to Secretary, Bank of England, 31 May 1883; H. Chubb to Agent-General, 8 June 1883, documents D in ‘First Report of the Creation, Inscription and Issue of Stock under the provisions of the Inscribed Stock Act of 1883’, NSW V&P LA, 1883-84, v. 2, no. 209; telegram, McIlwraith to Agent-General, 12 July 1883; F. May to Agent-General, 16 July 1883, in ‘Inscription of Queensland Stock’, Qld., V&P LA, 1883-84, v. 1, p. 619. At the eleventh hour, the Bank of England required Queensland to amend legislation limiting the term of the agreement to three years. See the two papers entitled ‘Inscription of Queensland Stock (Further correspondence respecting)’, ibid., at pp. 625 and 629 respectively; ‘First Report on the Creation, Inscription, and Issue of Stock’, Qld., V&P LA, 1884, v. 1, p. 895. Qld appears to have made an approach to the Bank as early as 1876, when the Governor was authorised to ‘make such arrangements as he may think expedient … in regard to the management by the Bank of the Public Debt of the Colony’, Court of Directors, 24 Feb. 1876, BoE: G4/98; this appears to be the origin of Clapham’s comments
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affording facilities for the inscription of its Stock they are entitled to the profit connected with the issue of the loan.69 NSW had anticipated such a change by providing for it in its current banking contract with the BNSW.70 In 1883, it had even been prepared to transfer its agency if required, but continued with the BNSW when the Bank had initially made no objection.71 A year later, however, the Bank gave neither colony a choice. Donald Larnach, the latter’s London chairman reported to Sydney in June 1884: ‘Whether the Bank of England authorities have been moved to this action by the jealously of New Zealand or Queensland, or whether they see the advantage they have themselves obtained, it is very clear that they are now resolved to put on the screw’.72

The acquisition of London agencies by the two metropolitan banks directly involved Governors, Directors and senior managers in settling the terms of fresh issues with colonial borrowers. The frequency of loans, associated requirement for bridging finance, and prickly assertiveness of Colonial Treasurers like McIlwraith and George Dibbs of NSW, made this an often irksome experience. After Baring’s failure in November 1890, the long-established system for taking up colonial loans based on syndicates organised by specialist brokers collapsed and subsequently disappeared.73 The failure of several flotations the following year and even heavier demands for short-term credit created incentives for agents to minimise risk by insisting that colonial loans were underwritten before offered to the public.74


70 Eager to Sydney Bank Managers, 19 October 1880, in NSW V&P, 1880-81, no. 178, ‘Government Banking Business. Correspondence …’


73 Hall, p. 101-2; W. Perceval to Premier, 9 June 1892, in ‘Three-and-a-half and Four per cent conversion operations’, NZ, Appendices, 1893, B-21.

74 Hall, pp. 171-72.
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During the 1890s, underwriting was still regarded as a novel, unorthodox, and barely legitimate practice. As recently as 1889, South Australia declined two offers to guarantee an issue. A Queensland loan was underwritten in January 1893, but this had been arranged in exceptional circumstances by the London chairman of the QNB to protect the colony’s fragile credit following a damaging dispute with the Bank of England. For the rest of the decade, colonial borrowers resisted further recourse to underwriters, most obviously because of the additional cost and unfavourable reflection on their credit this involved. As late as 1899, the NSW Agent-General responded to what was probably an offer from Mullens Marshall, the Bank of England’s broker, to arrange underwriting for an issue that eventually was abandoned: ‘While thanking Mr Daniel [sic., the senior partner] for his offer, Sir Julian Salomons] feels that he cannot entertain the same, and does not think it advisable to submit it to the Government’. By the turn of the century, however, both the Bank of England and the L&W made it a virtual condition before offering new loans. NSW’s last two issues by the Bank of England in 1901-2 were both underwritten through Mullens. The Bank maintained that the market’s increasing congestion since the turn of the century meant that it had steadily become the norm: ‘Over these changed conditions the Bank in common with other issuing Houses have obviously no control’.

Whether or not it was their original intention, underwriting allowed London agents to distance themselves from close involvement in loan negotiations with colonial

75 Blyth to Treasurer, 8 Feb. 1889, in ‘Correspondence between the Government and Agent-General, re floating of 1888 loan’, SA, Proceedings, 1889, v. 3, no. 56.

76 Sir J. Garrick to Chief Secretary, 13 Jan. and 3 Feb. 1893, QSA: RSI1311/205; Blainey, Gold and Paper, pp. 209-11.

77 S. Yardley to T. Askwith, 20 July 1899, BoE: AC30/189.


79 ‘New South Wales Government’, Chief Cashier’s Office, 30 May 1905, BoE: C30/147.

80 Draft, Chief Cashier to Agent-General, NSW, 16 Jan. 1906, BoE, AC30/147. Not sent.
representatives. It also shifted the risk of failure to the underwriters. The latter, however, was partly offset by the underwriting commission. The cost of borrowing rose (a fact deeply resented by borrowers), but success was guaranteed, making the business of floating a new loan increasingly routine. By 1905, Nivison’s virtual monopolisation of underwriting arrangements also brought about a further concentration in the colonial market. Nivison was the central figure in the negotiation of the terms and timing of the majority of flotations, thus also succeeding in imposing order on what for much of the nineteenth century had been a free-for-all. In August 1904, the Queensland Agent-General aptly described his firm as ‘the financial heads of the Colonial market’.81

Relationships with agents

This third section of the paper comments on the factors that influenced the relationship between borrowers and intermediaries. As we have seen, a colony’s choice of agent might be affected by several considerations: transaction costs; an agent’s ability to provide short-term credit; proto-nationalism; ministerial connections with local banks; a potential issuer’s prestige; the need to establish London registers of inscribed stock; the ability of local and metropolitan firms to compete for rents. As we would expect, colonial governments approached the agency relationship primarily as a business arrangement. It nevertheless was one affected by a host of factors and tensions of different kinds. In part, these can be characterised in terms of the ‘principal-agent’ problem, but this also simplifies enormously. Within colonies, it was often subsumed within the broader relationship between government and banker, and mirrored the stresses within it. It was also affected by the substantial overlap between business and politics in small colonial societies; populist mistrust of bankers; and colonial antagonism towards ‘foreign’ institutions, directed most obviously at the Anglos, which was never far below the surface. The most frequent differences between governments and loan agents were over the timing and, above all, price of new issues. Underlying this was a lack of trust amongst colonial politicians in the judgement and good faith of agents, often allied to ignorance of the market

81 H. Tozer to A. Morgan, 12 Aug. 1904, QSA: SRS5384/100.
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technicalities related to pricing and the frequency with which new bonds could be sold. Until the early 1870s, this was exacerbated by poor communications. Relations were most likely to deteriorate over the breaching of credit limits or the interpretation of agreements. Even when they did not, banks were vulnerable to political attack, either by backbenchers under privilege or from ministers themselves. These had finally provided the pretexts for the termination of agencies during the 1860s by the Oriental and Union.

The transfer of agencies to British banks, and their associated separation from banking responsibilities, created a more arms-length relationship and shifted the balance between principals, on the one hand, and agents who were now far less dependent on colonial business. Ministers might be attracted to the prestige of metropolitan firms, but relations with Bank of England, in particular, were often fraught. This clearly stemmed from what that Bank represented to colonial politicians sensitive to any appearance of subordination. It manifested itself in a stronger need to assert independence of judgement, and a generally aggressive tone which contrasted strikingly with the relations other colonies maintained with the L&W. Possibly it was the result of lingering resentment of their initial treatment by the Bank. It is probably not coincidental that the cipher code for the Bank used by both NSW and Queensland during the 1880s was ‘bastard’ or some variant of this. In part, it may have also reflected the abrasive personalities of the individuals who held leading positions in colonial politics. Dibbs, the Colonial Treasurer, asserted to the colony’s Agent-General during the negotiation of a NSW loan in 1885:

We take exception to [the] statement that [the] Bank of England objects to bring out our loan before October; it is in our own discretion, and on our own responsibility exclusively, that loans are to be issued; and although, as to terms of issue, we should of course be guided by [the] advice of [the] Bank of England we should never permit their objection to prevail against our own conclusion; this I mention for your future instruction.82

82 Telegram, Colonial Treasurer to Sir Saul Samuel, in ‘Loan for £5,500,000. Correspondence’, NSW, V&P LA, 1885-86, v. 3, no. 43.
Both he and McIlwraith unfairly suspected their Agents-General of being too close to the Bank, Dibbs actually having his colony’s representative censured by the cabinet during the 1885 negotiations. But direct attacks on the Bank’s good faith similar to those directed at the colonial banks could only have disastrous consequences, as McIlwraith discovered in 1891.

For their part, both colonial and metropolitan intermediaries regarded themselves as non-political intermediaries whose function was to provide financial services. Inevitably, the actions and advice of financial agents, affecting as they did the fiscal resources and spending plans of governments, could not avoid being ‘political’, particularly in a era before central banking. On no occasion, however, did an agent refuse to offer a loan, or interfere with an issue, because it disapproved of a government’s political programme. Their principal objectives as business organisations – survival, profitability, and the maintenance of reputation – nevertheless meant that they, like government bankers and the capital market generally, acted as external constraints on colonial politicians. This was case when they warned governments about the impact on their credit of too frequent loans or manner in which they were sold; refused further advances; or avoided forcing loans on the market. From the 1880s, the consequences of the Bank of England declining to float a loan were also never far from the minds of Colonial Treasurers. Yet agents were equally responsive to their clients’ needs. As regards the Bank, for example, this included the provision of substantial credits; the employment of loan receipts in the money market at its own risk; and the reduction of management charges for inscribed stock.

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83 Alex. Stuart to Samuel, 6 Aug. 1885, enclosing, Minute, Dibbs, 21 July 1885, in Loan for £5,500,000. Correspondence’, NSW, V&P LA, 1885-86, v. 3, no. 43; S. Griffith to McIlwraith, 22 June 1888, QSA: RSI13111/205.

84 Blainey, Gold and Paper, pp. 209-11.

85 Samuel to Treasurer, 23 July 1886, SRNSW: 10/22339; Loan Agents to Colonial Treasurer, 30 Dec. 1884, in ‘Loan and Conversion of Debentures into Inscribed Stock’, NZ, Appendices, 1885, B-11; T. Archer to Chief Secretary, 29 June 1888, QSA: SRS5321/51.

86 E.g. Samuel to Colonial Treasurer, 11 Oct. 1889 (re. lending to the market), SRNSW: 10/22342; ‘New South Wales. 1890-92. Particulars of Advances’, ibid., 5/2731.1; H. Bowen to Agent-
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Some final remarks

Three points will be made in conclusion. These concern the role of existing financial networks in facilitating entry to the London capital market; the identity of ‘imperial’ banks in the international financial system; and the significance of the Colonial Stock Act 1877.

Quite clearly, the colonies’ initial entry into London was facilitated considerably by the existence of an established banking infrastructure (including both Anglos and colonial banks), with its associated agency relationships, that had financed Anglo-Australasian trade since the mid-1830s, provided governments with immediate access to the metropolitan capital market, and allowed them to bypass London issuing houses. By the same token, in an expanding market, business relationships in the City of London during the middle of the century remained relatively fluid and the gentlemanly ethos of established firms allowed fair play to new entrants. Tom Baring said as much to the Governor of Victoria when drawing a veil over his firm’s embarrassment in that colony: ‘I wish we could have foreseen the desire of the Government to employ the local Banks as in that case we should have sent nobody or at any rate desired our agent at once to retire … as it would never have been our desire to prejudice or interfere with the colonial establishments’.87 London had never placed any barriers to new issuers.88 The soundness of the original Anglos, and the interconnections at board level between the Anglo-Australasian banking community and London establishments, placed several of the ‘Australian’ banks at the higher end of the spectrum. Rothschilds observed of the Union in 1855: ‘we should be pleased to enter into an operation with this Bank (which is of the first respectability)’.89

88  For foreign government issuers, L. Jenks, The Migration of British Capital before 1870 (London, 1927/71), pp. 48-49; 272-5 and Appendix C.
89  N. M. Rothschild & Sons to J. Cullen, 5 Feb. 1855, Rothschild Archive: II/10/20; Baster, pp. 120-21.
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An obvious consequence of the Colonial Stock Act of 1877 was a concentration of Australasia’s loan agency business which again bypassed the merchant banks but also substantially removed both the Anglos and the colonial banks from the marketing of colonial government securities. Baster, in a study published in 1929, followed contemporary usage by describing the latter, whether registered in London or the colonies, as ‘the imperial banks’. It can today be regarded as a misnomer both as a description of function and as a way of thinking about their position in an international financial hierarchy based upon London. Truly ‘imperial’ banks were those financial organisations rooted in the metropolitan economy; whose overseas connections were essentially incidental to their domestic functions; but whose facilities, resources and prestige meant they first became to London bankers for the Anglos and the colonial banks, and later allowed them to acquire the loan agencies (and in some cases, the London accounts) of the colonial governments, further strengthening the region’s connection to sources of metropolitan capital. The South Australian Agent-General acknowledged this when he observed in 1879: ‘The strength and influence of all Australian banks must be estimated mainly by their bankers’. The more obvious candidates included the L&W and, above, all the Bank of England.

Finally, both the 1877 Act and the subsequent transfer of agencies to English agents began the process by which colonial securities came to occupy second place to domestic gilt-edged stocks. This can be interpreted as a ‘tightening’ of institutional links within empire which counter-balanced the apparent loosening of ties following the granting of responsible government. If this was reflected in a narrowing of spreads between the prices of their bonds and consols, it came at a cost. Colonial governments were attracted to inscription and metropolitan agents as ways of improving their credit, but higher standards were also demanded of them, whether in terms of the conduct of their agency relationships, the quality of their loans, or the way in which

90 Baster, pp. v-vi.


92 Blyth to Treasurer, 17 Jan. 1879, in ‘Correspondence Re Issue of Late Loan’, SA Proceedings, 1879, no. 97. ‘Correspondence Re Issue of Late Loan’.
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their paper was issued. Costs also rose in the form of underwriting commissions and management charges. The latter, at least, could also be thought of as a market response to the demand for secure access to substantial funds that colonial borrowers persisted in requiring.

93 This was the purport of the warnings transmitted by the colonial Agents-General and Loan Agents cited in note 85 above.
Table 1: First sales of colonial government securities in London

<table>
<thead>
<tr>
<th>Year</th>
<th>Colony</th>
<th>Mode of sale</th>
<th>Intermediary</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1855</td>
<td>New South Wales</td>
<td>Private</td>
<td>Bank of New South Wales</td>
<td>Agent</td>
</tr>
<tr>
<td>1855</td>
<td>South Australia</td>
<td>Private</td>
<td>Agent-General for Colonies</td>
<td>Agent</td>
</tr>
<tr>
<td>1857</td>
<td>New Zealand</td>
<td>Mixed public/private</td>
<td>Union Bank of Australia</td>
<td>Contractor; government banker.</td>
</tr>
<tr>
<td>1858</td>
<td>Victoria</td>
<td>Mixed public/private</td>
<td>Associated Banks of Victoria</td>
<td>Agents; several banks already hold government accounts.</td>
</tr>
<tr>
<td>1863</td>
<td>Queensland</td>
<td>Mixed public/private</td>
<td>Union Bank of Australia</td>
<td>Agent; government banker.</td>
</tr>
<tr>
<td>1867</td>
<td>Tasmania</td>
<td>Public</td>
<td>Bank of New South Wales Consolidated Bank</td>
<td>Agents. The Bank of New South Wales was the London agent of the government banker in Hobart. The Consolidated Bank held the government’s London account.</td>
</tr>
<tr>
<td>1879</td>
<td>Western Australia</td>
<td>Public</td>
<td>Crown Agents</td>
<td>Agents. Western Australia remained a Crown Colony until 1890.</td>
</tr>
</tbody>
</table>

‡ Excludes New Zealand provinces and agents for colonial securities remitted for re-sale in London.

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Table 3: First Australasian government loans underwritten in London

<table>
<thead>
<tr>
<th>Colony</th>
<th>New South Wales</th>
<th>Victoria</th>
<th>Queensland</th>
<th>South Australia</th>
<th>Tasmania</th>
<th>Western Australia</th>
<th>New Zealand</th>
</tr>
</thead>
</table>

$ Only Queensland loan underwritten before 1900.

† Underwriting for New Zealand loans arranged by J & A Scrimgeour.