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The London Stock Exchange and the colonial market: the City, internationalisation and power*

Victoria had a little loan,
She fixed it up at par;
And everywhere that loaney went
The people called out 'b-a-a.'

The brokers shouted loud and long
'Your loaney is a fiz;
It leaves so little for us brokes (sic)
We can't do any biz.'[1]

The rise of the City of London as a centre for global commerce and finance is one of the most striking examples of the internationalisation of markets before 1914.[2] Yet within the City itself the transformation of the securities market was a remarkable case. By the mid-nineteenth century the London Stock Exchange was an already well-established organisation, but it served primarily domestic needs. From the 1850s, however, an influx of new foreign and colonial issues dramatically altered the market's orientation. Business increased enormously, but so too did risks. The Exchange's governing body quickly tightened the quotation rules for government loans and prescribed how they should be offered; at the same time new sub-markets appeared promoting further specialisation amongst brokers and dealers. Thus the Exchange responded to rapid changes in the securities market by both formal and informal means with a view to exercising greater control over those wishing to employ British capital abroad.

Much is already known about the Stock Exchange's internationalisation before 1914. Research has focused on the Exchange's comparative development, the impact of the communications revolution, and the integration of national and overseas markets.[3] Considerably less is understood about how the sudden appearance of a wide variety of new foreign and colonial securities affected the Exchange's regulatory and trading arrangements, or the ways in which control over both conferred power in the new global economy. The significance of these developments becomes even clearer when they are placed in the context of a broader pattern of institutional and organisational change taking place in the City during the mid-Victorian decades. These changes have been likened in importance to the 'Big Bang' of the 1980s, with attention focusing in particular on the reforms of British company law and the associated rise of joint-stock organisation in banking and other financial services.[4] The contemporary changes in the securities market were part of this larger process of adjustment in London's service industries which simultaneously accommodated and assisted the enormous growth of international business.

This chapter explores these themes through the experience of one particular group of overseas borrowers, Britain's self-governing colonies of settlement (particularly the Australasian colonies), which together constituted the "colonial market" in London.[5] No special claims are made for their significance other than that they contributed to, and were affected by, the same processes of institutional and organisational change affecting all overseas borrowers from the mid-1850s; indeed, in some instances they were the catalysts for it. Unlike foreign governments, however, many stayed active in the City long after other borrowers had started to look for capital elsewhere. The colonial market, therefore, offers a case study of the interaction between power and institutions spanning the entire long period from London's rise as a global securities market to its relative decline after 1914. It is important to emphasise, moreover, that the kinds of power the colonists encountered in the City operated independently of formal imperial authority. The case study thus provides insight into institutional mechanisms and modes of control which affected overseas borrowers more generally, most obviously the other developing societies of the non-European world.

The chapter is in four parts. The first briefly reviews the Stock Exchange's organisational and institutional development to 1914, focusing especially on the origins and nature internationalisation. It also considers the growing significance of colonial borrowers after 1850 and the forms of power to which they were subject. The next two sections distinguish between the Exchange's functions as a regulatory body—and hence as the source of formal institutions—and as a market with its customary usages and informal modes of organisation.[6] The first ("institutions") assesses the impact of internationalisation on quotation rules from as early as the 1820s, but particularly in mid-century. The second ("market") examines the process of mutual adaptation through which borrowers conformed to the requirements of the Exchange's membership, and traders acquired specialist functions within the market for new debt. The final section shows how the oligopolistic underwriting arrangements that emerged at the turn of the century allowed Stock Exchange firms to continue to control the colonial market. Throughout, the relationship between institutions and power is a central theme.

1. The Stock Exchange, internationalisation and power

A securities market existed in the coffee houses of London from the late seventeenth century, but until the end of the Napoleonic wars trade was almost exclusively in British government securities and related guaranteed obligations (the national debt or “public funds”).[7] Before 1800, the market was also loosely organised, dispersed, and lacked a formally constituted membership. Nevertheless, its characteristic modes of dealing, settling bargains, and disseminating price information by means of an “official list” were already well-established. The “separation of capacity” between brokers and dealers was also recognised, although not rigidly enforced: brokers acted as agents, executing buy and sell orders on behalf of clients; the dealers, or “jobbers”, bought and sold on their own account, thus providing a market for the brokers. By the turn of the eighteenth century, both groups wanted to regulate trade more effectively by restricting access to the market’s physical space and membership. In 1801, the London Stock Exchange was formally established with the membership comprising elected subscribers. It “not only provided a market for securities but also incorporated regulations on how business should be conducted.”[8] A Committee of Trustees and Managers represented the proprietors. It was responsible for the management of the Stock Exchange building – first opened in 1802 and re-built on the same site several times – and fixed subscription fees. The Committee for General Purposes (hereafter the Committee) was chosen by the subscribers and regulated the market itself. The Committee drew up and applied the organisation's rules (publishing the first rule book in 1812), elected new members, and adjudicated disputes. The Exchange thus had a dual character: first of all it was the regulatory organisation that controlled the formal institutional framework for trading securities in London; at the same time, it was also the body of traders themselves – brokers and dealers – who comprised its membership and whose interests the regulatory framework principally served.[9]

After 1800, business was still dominated by the national debt, although the appearance of some new borrowers enhanced the Exchange's importance in the wider capital market. During the 1820s, a short boom in foreign loans (mostly Latin American) created enough business for the opening of a Foreign Funds market in a room adjacent to the main English market. It also soon accommodated dealings in the shares of several new companies floated to operate overseas. This precocious activity soon gave way to what would become a familiar combination of sovereign defaults and corporate failures. But "the episode of the Foreign Funds market … had been a watershed for the London Stock Exchange."[10] In 1835, the foreign market disappeared as a separate organisation. The volume of securities trading, however, soon rose again during the domestic railway booms of the thirties and forties. Indeed, railway mania accounted for the first sustained expansion beyond the national debt. As a consequence, even in the early stages of the mid-Victorian boom, the Exchange could be regarded as "the biggest and most important of its kind in the world."[11]

Yet the market was still only on the brink of internationalisation. During the 1850s, British capital exports started their remarkable surge. This, combined with the simultaneous growth of British commercial enterprise, transformed the City into "the undisputed financial centre of the world."[12] Although the national debt and domestic utilities still accounted for a substantial share of securities trading, the issues of overseas governments and companies operating abroad – especially railway obligations – also became increasingly prominent. But internationalisation had many other dimensions. Quite apart from the cosmopolitan nature of the financial instruments now circulating in London, the market's size and liquidity attracted a growing volume of foreign orders and, with the communications revolution, created the opportunities for specialist brokers to transact a substantial arbitrage business with New York and the Continent. At the same time, links to the money and foreign exchange markets were consolidated by the dependence of the exchange's members on short-term credits and the facilities they provided for buying and selling international securities like French *rentes* and American railway stocks. In turn, all this was contingent on the conjunction of several favourable conditions: the Exchange's openness to new members from a variety of social and national backgrounds (between 1850 and 1905, membership rose from 864 to 5,567);[13] its flexibility over commissions; its willingness to list new issues (the number quoted increased from less than 500 in 1850 to more than 5,000 by 1913);[14] its responsiveness to new technology and the market's physical need to grow; and – in contrast with European bourses – the almost entire absence of government regulation. They were all the prerequisites for a spectacular expansion which inspired the New York agent of one English broking firm to declare in 1911: "The London Stock Exchange is the only really international market of the world. Its interests branch over all parts of our globe."[15] Although unheralded and not particularly fashionable, the British colonies first appeared as borrowers in London at the beginning of the mid-Victorian boom and made their own contributions to the surge of capital exports (material as well as financial), internationalisation, and the pressures felt in the City for institutional and organisational change. With India occupying a separate category, the rest of the Empire could be divided into two groups: the crown colonies, whose administration was controlled directly by Britain, and the self-governing migrant communities in North America, Australasia and southern Africa. In important respects, the British regions of recent settlement were no different from settler communities in other parts of the world.[16] After their early colonisation, globalisation provided them with opportunities for long-term growth as suppliers of raw materials, minerals and food. But the creation of export capacity required enormous investments in railways and other forms of social overhead capital. Much of this was financed in London, with governments and other public bodies often taking the lead.[17] Although, on the eve of the First World War, the nominal value of all empire government securities quoted in London was just a quarter that of foreign government stocks, from the mid-1870s capital subscribed for the former generally far exceeded the amounts raised by foreigners (table 1 and appendix).[18] Over the entire period 1865-1914, governments in British settler colonies and India accounted for just over half of investment in overseas government bonds and 15 per cent of all British capital raised by public issues in London. The Australasian colonies claimed two-fifths of this investment in empire, with it concentrated in the period 1874-92 and in the years immediately preceding the War.[19]

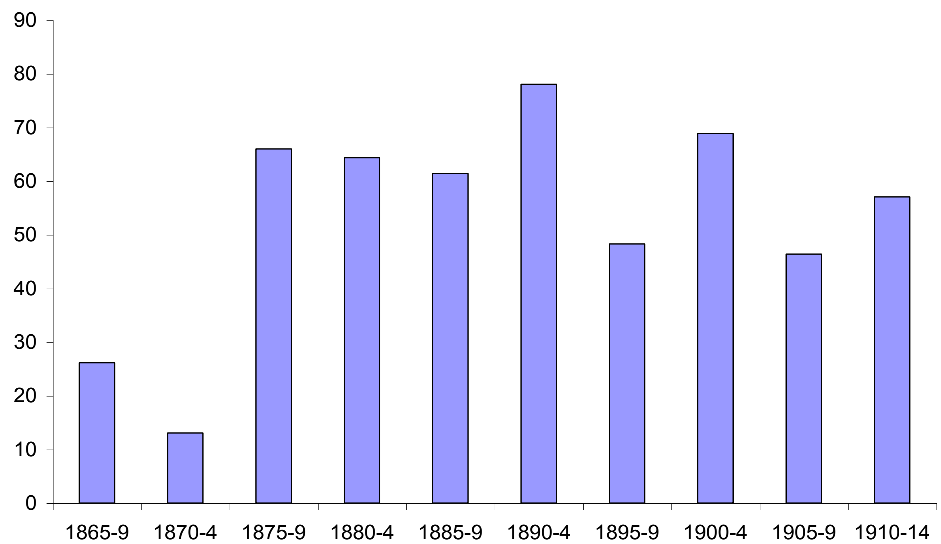

Figure 1. Capital subscribed to issues by major colonial governments as a proportion of total subscriptions to overseas government issues, 1865-1914, per cent.

Source: Appendix

Australasian and other colonial governments thus participated in the London securities market as suppliers of debentures, bonds and inscribed stock. The Stock Exchange performed its dual function as a regulator and the body of intermediaries linking the colonists' supply of securities to the investors, who ultimately constituted demand. How did power enter these relationships? Most obviously, the colonists were subject to the Committee's power over whether their securities would be marketable, as well as to whatever power accrued to the Exchange's members from their willingness to trade.

Both pertained to the normal requirements of any exchange: the institutional arrangements necessary for a market to function in an orderly manner; the prerogatives of traders to deal voluntarily as well as to manage their risks. But power also created opportunities to influence, coerce or to constrain significantly the choices of those wishing to borrow. Its potential uses, therefore, raise more fundamental questions about hierarchy and control in the global economy, to which we must now briefly turn.

The social theorist, journalist and economist, J. A. Hobson, famously described finance as “the governor of the imperial engine, directing the energy and determining its work.”[20] In fact, Hobson distinguished between the ‘new imperialism’ in Africa and other tropical regions after 1870 – to which he was referring – and “the colonization of sparsely peopled lands in temperate zones, where white colonists carry with them the modes of government, the industrial and other arts of the civilization of the mother country.”[21] Indeed, British colonists in North America and Australasia were amongst the main beneficiaries of a settler imperialism which also gave them considerable advantages in the City because of the relative ease with which information, money and people flowed within the Anglo-world; the possibility of appeals by investors to metropolitan legal institutions; and the imperial government’s willingness to grant occasional guarantees and enact legislation in the form of the colonial stock acts which made it safer to hold empire stocks.[22] Even had none of these advantages existed, the imperial government’s strict adherence to laissez faire precluded any direct attempts to interfere with the settlers’ access to money.

Despite all this, ever since Gallagher and Robinson advanced their widely-influential hypothesis about the "imperialism of free trade", the self-governing colonies – no less than heavily indebted Latin American republics – could be viewed as being subject to an "informal" British power which was no less effective because falling short of direct rule.[23] Informal imperialism might take many forms, but its dynamics as far as the colonists were concerned were essentially the same: dependence on British investors and financial intermediaries narrowed their effective choices and compelled, or predisposed, them to conform to metropolitan expectations. In the argument's most recent development, Cain and Hopkins have characterised the British service sector, with its orientation towards the international economy, as a "gentlemanly capitalism" which exploited its connections with government – as well as its capacity to determine the norms of economic behaviour (i.e. its structural power over 'the rules of the game') – to create and maintain the most favourable conditions for British commerce and investment abroad.[24] In other words, in temperate regions, no less than tropical, metropolitan finance could still be viewed as "the governor of the imperial engine", with the only difference that it performed this function long after formal imperial rule had lapsed.

Whether or not one chooses to define imperialism as the exercise of power in these ways, the concept of informal imperialism offers a starting point for considering the wider significance of the powers of bodies like the Stock Exchange, particularly when their use was motivated by a desire to coerce or to ensure that borrowers observed metropolitan standards of credit-worthiness. The extent to which the elaboration of the Exchange's rules up to the 1870s made either possible is the subject of the following section.

2. Institutions

As far as those wishing to raise capital in London were concerned, the Stock Exchange's most important institutional power was over whether to grant a special settlement to a new stock and include it in the Daily Official list of securities and their prices.[25] The steady increase in the number of new issues, desirability of a quotation, and wider recognition of the Committee's authority meant that, as the Chairman observed in 1875: "we have gradually grown up from a private body, that is to say a private tribunal for the regulation merely of our internal business, into a sort of public and quasi judicial position."[26] Although exclusion from the official list did not prevent a security from being traded, quotation brought it within "a publicly recognized market" and provided the information needed by investors and creditors before they were willing to hold it or accept it as collateral.[27] For these reasons one broker complained to the Committee in February 1862, after some New South Wales debentures had failed to obtain a listing: "Our Principals … having received them as remittances, find themselves placed, by your decision, in the position of holders of unavailable assets".[28]

From the outset the significance of a quotation, and even of a bond's prominence in the official list, was clear to the financial agents responsible for marketing colonial debt. In 1857, the Crown Agent for Colonies applied to have the stocks of Canada, New South Wales, Victoria and South Australia marked under "a distinct heading, say of 'Colonial Government Securities'."[29] His motive was to make them "more generally sought," and when the Committee granted his request the colonial market effectively came into existence.[30] Five years later, the secretary of the Union Bank of Australia (hereafter, the Union Bank) explained to the bank's Colonial Inspector in the colonies that the Stock Exchange:

> may assume to themselves undue powers … but as the Committee carry general investors at home with them (for such parties may well seek to know what extent of obligations particular Governments may incur, their correctness, resources, &c., and they depend on the Stock Exchange Committee to ascertain at least sufficient of these particulars to justify the quotation of Debentures in their official list), they – the Committee – in making investigations and requirements, do not really prejudice, but probably support the interests of such Colonial Governments as look for, and may be entitled to, assistance from our money market.[31]

Arguably, by the 1860s the most important regulation affecting overseas borrowers had already existed for some time, one consequence of the defaults that helped bring to an end the first foreign loan boom. In 1827 the foreign market's committee refused to recognise new issues by governments that had already stopped payment; the main Exchange continued the ban after the merger of the foreign and domestic markets.[32] By the early sixties, the rulebook stated:

> The Committee will not sanction, nor take any cognizance whatever of, bargains made in any new Bonds, Stock, or any other Securities issued by any Foreign Government, that has not duly paid the Dividends on former Loans raised in this

> country, unless such Government shall have effected and carried out some arrangement with the holders of such Stock, Bonds, or other Securities, on which the Dividends have been left in arrear (sic).[33]

Throughout our period, this rule was far more effective in bringing about the settlement of outstanding debts than anything aggrieved investors might hope to accomplish themselves by direct negotiation with delinquent governments. Yet borrowers of all descriptions also came to recognise the potency of an appeal by disaffected parties to the Stock Exchange's rule book even when they were most punctual in their payments. In 1859, the English shareholders of the Geelong and Melbourne Railway Company threatened to sabotage the first important Australasian issue in the City – the initial instalment of a seven million railway loan for the gold-rich colony of Victoria – when they protested to the Committee that they had not received dividend payments allegedly guaranteed by the colonial government.[34] The shareholders were already negotiating the railway's sale to the colony. When it appeared that the loan might be denied a quotation, the London director of one of the banks involved in the issue urged another of the financial agents: "Pray write out [to Australia]… that the Geelong & M[elbourne] Railway may be bought up."[35] In the event, the Committee soon decided to grant a quotation after it was established that the colony's guarantee only extended to the Company's debentures.[36] But the colonial government was ignorant of all this when it finally agreed to purchase the line, putting an end to what the local correspondent of The Times described as "the shabby attempts to depreciate the credit of this colony."[37]

Similar attempts (almost invariably by foreign-owned railway companies) to use the Stock Exchange's quotation rules to interfere with new colonial or foreign government issues were a familiar tactic in the Victorian and Edwardian capital markets, and might be interpreted as one manifestation of imperialism – an imperialism of business – in its informal mode.[38] Yet even when there was no crude intention to coerce, the Exchange's refusal to grant a quotation might be an equally effective use of informal power (in this instance, structural) if it left borrowers with no choice but to adjust their institutional arrangements to make their credit more acceptable in London. This arguable was the case during the 1860s, when the Committee declined to recognise the issues of New Zealand's provincial governments because of uncertainties about the security of their fiscal resources and the means of legal redress should a province default.[39] Underlying the Exchange's decision was an implicit preference for large, marketable issues secured on the revenue-raising powers of a central government. Without the possibility of a quotation for provincial issues, the colony had little alternative but to abolish the provinces' borrowing powers and consolidate their issues into a single colonial stock. Further research may uncover similar instances of institutional reforms undertaken to meet the Stock Exchange's standards of credit-worthiness. But the Exchange's refusal to recognise an entire class of borrowers was probably exceptional. More typically, the Exchange responded to the enormous increase in the number of securities entering circulation from the mid-nineteenth century by adjusting its own institutional arrangements to prevent fraud, increase the information available to members, and control the ways in which new stocks were sold. In early 1859 the Committee defined for the first time the conditions on which a foreign or colonial loan would be granted a quotation. Amongst these, the contractor or agent was required to provide details of the amount issued to the public, and had to be represented by a broker when the application was considered.[40] The immediate reasons for the new regulation are not clear, but the rule was amended almost immediately because of problems arising from the sale of Australasian securities. The most common way these entered the market was by private negotiation through the agency of a broker. Bonds were either sold in the City itself for the first time or, in the case of local issues, re-sold after remittance by an original buyer in the colonies. Disputes occurred between brokers and dealers because remitted bonds frequently lacked information about where coupons were payable or the total issue authorised.[41] After one disagreement over whether certain New South Wales debentures were actually negotiable in London, the Committee decided that in future <u>all</u> remitted government bonds should be signed by a financial agent in England, specify the authority and amount of the loan, and list the numbers and denominations of the entire issue.[42] Three years later, after "a long controversy" with the New South Wales loan agent, the Committee agreed to ban the sale of new issues by private negotiation altogether, resolving "that all Colonial bonds issued in this Country should be publicly negociated (<u>sic</u>) by tender or otherwise."[43] Again, the Committee's minutes are not explicit, but the most likely reason was the dealers' objections to the unpredictability of supply when debentures were remitted or sold privately in small instalments. In October 1862, the Union Bank's secretary explained to the Brisbane manager that the Exchange had been "very anxious to induce Colonial Governments to desist from local sales of such

Debentures as may be intended for subsequent disposal here, and to prevent financial agents in London from effecting private sales."[44] In the event, the new rule was applied to foreign issues as well as colonial.[45]

This amendment effectively ended private negotiation through a broker a means to sell new colonial debt in London, even when the sums involved were trivial.[46] Borrowers now converged on the practice of inviting competitive tenders for large loans and opening the tenders publicly on a nominated day. For the rest of the century there was only one further change to the way in which colonial loans were marketed, yet this also was initiated by the Stock Exchange. Until the early 1870s, loan agents kept the minimum or reserve price of new issues secret until tenders had been opened. Within a few years, the brokers' reluctance to bid unless the minimum was advertised virtually put an end to this. The Committee's role was now simply to reinforce an existing trend, accomplishing this without a rule change in February 1876 by the publication of a memorandum condemning the "exceptional practice" and questioning whether "it should not constitute a bar to Official Quotation."[47] The mere threat to deny a listing was clearly considered sufficient.

By the mid-1870s, the Committee had established a set of rules and conventions which ensured that the colonists' market behaviour accorded with the preferences of the Exchange's members.[48] Subsequently, the most important formal institutional innovations, the Colonial Stock Acts of 1877 and 1900, were legislative and originated elsewhere. Until the end of the century, the arrangements for offering colonial loans within the Exchange's regulatory framework were unchanged. But these arrangements were also influenced by customary practice, preferences and organisational forms that originated within the market and to which the regulatory structure was itself an institutional response. It is to the consideration of these that we must now turn.

3. Market

The extent of the Stock Exchange's participation in the marketing of new issues has been generally regarded as quite limited. Kynaston offers the best account, concentrating on the preparation of the prospectus, the arrangement of underwriting from the 1880s, applications for special settlement and quotation, and malpractices like pre-allotment dealing and stagging, all with particular respect to company issues.[49] Where the retailing of new stock was concerned, Davis and Gallman express a common view: "The raising of capital by the sale of new securities was not done through the stock exchange, but through a loosely structured collage (sic) of new issue houses, company promoters and brokers, underwriters, and advertisements."[50] It is certainly true that member firms themselves rarely acted as the agents or contractors for a loan. But as a mechanism for absorbing and distributing new stock, the Exchange was indispensable, particularly as far as colonial borrowers were concerned.

It is impossible here to give an adequate account of all roles played by stock exchange firms in the new issue market for colonial loans, although some will already be evident from the preceding section. It is sufficient simply to emphasise that stock exchange support was indispensable because its members more often than not were the market in the first instance. An important reason for this was a customary practice scarcely mentioned by historians: the payment to stock exchange firms by issuers of a quarter per cent commission for any sales of new debt effected by them, or successful tenders obtained through their agency. By allowing this commission, financial agents gave the Stock Exchange a direct interest in handling the greatest proportion of any new loan. The importance of the customary quarter per cent was acknowledged by everyone interested in an issue's success. One of the first decisions of the consortium selling Victoria's seven million loan was "that all members of the Stock Exchange, whether dealers or brokers, be paid the usual brokerage."[51] A decade later, when a new agent offered a New South Wales loan for the first time, its managing director in London was "waited on by some of the Brokers of the Stock Exchange," who told him that "they would take no part in it unless we would pay them the full quarter per cent always allowed to Brokers."[52]

Yet even had no commission been involved, the stock exchange's market-making functions meant that the dealers inevitably purchased the greater proportion of new colonial bonds and subsequently retailed them via the brokers in response to public demand. The customary quarter per cent was simply an added incentive to the firms involved in this chain of transactions. During the controversy over private sales in 1862, the brokers employed by the New South Wales loan agent explained to the Committee: "the Bank only sell the bonds on the demand of the dealers."[53] Not long before, the London secretary of one of the banks selling Victoria's seven million loan informed the acting superintendent in Melbourne: "A large number of the subscribers are jobbers, who are not permanent holders, but who sell again at a small profit to the public." He added: "it is well known that, unless any Foreign loan is favorably (sic) received on the Stock Exchange, it can never be placed successfully upon the market."[54]

Its unpopularity with the jobbers was probably the main reason why the Committee disallowed private negotiation for the retailing of new debt. One banker warned as early as 1860: "the plan of selling in small portions is not a wise one; it tends to keep back the biddings from the Stock Exchange, and to make the operators in the money market unwilling to deal with the bonds."[55] By contrast, the tender system on which all Australasian borrowers had converged by the middle of the decade best-suited the Exchange's own preferences for how to handle the growing number of new issues in what had become a discrete colonial market.

Even during the operations to sell Victoria's seven million loan, broking firms bid for substantial amounts of stock by aggregating many separate tenders.[56] By the mid-seventies, the brokers themselves were organising these combinations of investors, which were now being described as "syndicates" by analogy with the groups (sometimes including stock exchange firms, and also known as syndicates) that were paid a commission by loan contractors and company promoters to guarantee the sale of all or the greater part of a new issue.[57] Syndicates of the latter kind were sometimes also known in the colonial market but this was rare. Despite the confusion of some observers, the distinguishing characteristic of syndicates in the colonial market was that they were organised voluntarily by stock exchange firms, who acted independently of loan agents and did not receive any commission apart from the customary quarter per cent.[58] Profits arose solely from the difference between a debenture's original net purchase price and the amount for which it was eventually sold. In 1883, after a loan for Victoria failed because the syndicates did not believe it worth their while to bid (inspiring the rhyme quoted in the epigraph to this chapter), The Financier offered the best description of these "useful intermediaries":

> For many years past, Loans of this sort have been taken in the first instance not by the investing public but mainly by financial associations, "syndicates," and so forth, who have sought to make their profit by "nursing" the new Stock and – sometimes after the lapse of a considerable interval – parcelling it out amongst investors in proportion as the demand has made itself manifest through the market.[59]

During the 1870s these investor groups coalesced around a handful of stock exchange firms with particular expertise in colonial stocks who were one element in a much larger pattern of specialisation in the Victorian Stock Exchange.[60] In 1875, South Australia's Agent-General explained after his negotiations with one of the principal syndicate brokers:

> You can count off on the fingers of one hand the names of all the brokers upon whose countenance and support the floating of every Colonial loan depends. The Stock Exchange, as a body, don't go in for Colonial loans – there is little to be made out of them. They leave the tendering of the bulk to the four or five who get up the necessary information on Colonial subjects, and obtain such share for their own connexions from the tenderers, on the same terms, afterwards.[61]

Provided loans were attractively priced, the syndicates effectively underwrote new Australasian issues in London, as well as the issues of the other colonies and probably India as well. When Australian investments boomed during the 1880s, the successful applications by general investors sometimes exceeded allotments to the syndicates by a considerable margin, but the latter could always be relied upon to make up any shortfall. Their informal nature, however, meant that they were fundamentally unstable. If loans were priced too keenly (as in the case of Victoria's loan of 1883), credit dried up, or too much capital was already locked up in other speculative investments, the syndicates ceased to function. The weakening of Australian credit from 1889, combined the following year with the depressing effects of the Baring crisis on a wide range of stocks, had precisely this result. In the first half of 1891 no syndicates bid for new issues by South Australia, Victoria and Queensland, which all failed.[62] Soon after, the New Zealand Agent-General observed: "The syndicates that a few years ago were always ready to make wholesale purchases of a large quantity of stock with the view of retailing it out to small investors now no longer exist."[63]

The 1890s, in fact, marked the transition to a more formal system of underwriting in the London capital market that ultimately replaced these loose combinations. The payment of commissions to guarantee the success of a new issue slowly came within the pale of accepted practice, with the Companies Act of 1900 finally removing any lingering doubt.[64] For colonial loan agents underwriting not only formalised the old system of stock broker-led syndicates but also eliminated risk because underwriters were obliged to take up the unsubscribed portion of any loan. At the turn of the century, when several

Australasian borrowers wished to re-enter an increasingly crowded market still wary of Australian credit, loan agents insisted that the new issues be underwritten, despite the additional costs involved.[65] The actual arrangements, however, were left to a tight circle of stock exchange firms, who required that loans be offered for subscription at a fixed price. One of these firms, J. & A. Scrimgeour, had been a key syndicate broker during the 1870s and 1880s. It now underwrote for New Zealand. A second, Mullens Marshall, had also been active in colonial securities since the mid-nineteenth century.[66] The most important, R. Nivison & Co., filled the gap created by the disappearance of many of the other syndicate brokers during the 1890s. Nivisons eventually monopolised the underwriting of Australian, Canadian and South African loans, and cooperated with Mullens over Indian issues.[67] In a study of the colonial market published in 1911, a German scholar commented on the prominence of these three firms, observing: "with the fixed-price issue, the role of the broker comes to the fore."[68] After the First World War, the governor of the Bank of England described them as the "issuing brokers."[69]

4. Institutions and market, 1900-30

The three issuing brokers were at the end of a process of specialisation by which stock exchange firms came to be the main links between colonial borrowers and the wider capital market. As a result, Nivisions and the other brokers exercised considerable control over the terms and timing of new issues. After 1900, the price of all new colonial loans had to be agreed first with one or other of them. Moreover, just as during the 1870s and 1880s, when the syndicate brokers acted as specialist intermediaries between borrowers and the rest of the Exchange, the issuing brokers now served similar functions in the Edwardian market. Their agreement to underwrite at a given price also served as an important signal. According to a former South Australian Agent-General in 1908, stock exchange firms were still the main sub-underwriters of Australian loans: “Jobbers ask directly a loan is coming out: ‘Is Nivison in this?’ If he is not they will not touch it.”[70]

With the connections between the issuing brokers and the financial institutions that supported them well-established, and all the critical negotiations taking place between the loan agents and brokers beforehand, the floating of new Australasian and other colonial loans was increasingly a routine matter. Risk to borrowers and their agents had largely been eliminated, but at the cost of dependence on an effective oligopoly of the three underwriting firms. It was a further example of the restrictive practices that were becoming more common in the London securities market immediately before the First World War. The most well-known instances were the strict enforcement of the separation of capacity between broker and jobber from 1909 and the introduction of minimum commissions in 1912.[71] Each undermined the Exchange’s competitiveness and frustrated its more dynamic elements. But the war itself dealt the most powerful blows to London’s international position. From 1915, private foreign lending was subject to an official embargo and even when this was abandoned in 1919 capital exports continued to be restricted in one form or another for most of the twenties.[72]

Despite the more difficult conditions in the City for all overseas borrowers after 1914, the empire continued to be favoured by London's regulatory regime. Even during the war, the British dominions were permitted to continue raising money for essential public works. After 1918, British capital exports failed to recover to their pre-war levels, but the empire increased its share of this diminished total, governments alone accounting for an annual average of 40 per cent of overseas issues during the 1920s. Australasian public bodies were particularly prominent.[73] The Stock Exchange Committee continued to exercise authority within its established sphere of responsibility. The concentrated arrangements for underwriting colonial loans, however, provided new ways to regulate empire borrowing. Even before 1914, the three brokers cooperated voluntarily to smooth the flow of new securities. After the war, the Bank of England sought to incorporate them into its own arrangements for regulating the capital market, at first through the operation of a loan queue, and eventually by requiring them to seek its approval for any fresh issue.[74]

The Governor's inability to exercise anything stronger than moral suasion ultimately frustrated these efforts. But the broker's oligopoly did create a new vulnerability to those wishing to interfere in a colonial government's borrowing operations which was particularly acute because of the participation of all the City financial institutions that mattered in the underwriting arrangements orchestrated by Nivison and the others, and the readiness of those institutions to form a united front against any borrower that could be accused of breaking contracts with existing investors. During 1920-24, British pastoral companies with substantial holdings in Australia organised a boycott of

Queensland government loans after the state Labor ministry removed the statutory limit on crown rents.[75] The denial of a quotation was still an obvious weapon in the City's armoury. At a meeting in June 1920, at which the state Premier tried to explain his efforts "to dissipate the idea that the Labour policy was destructive to capital," committee members reminded him that they had the power to "remove quoted stock from the List … prevent the publishing of the record of markings … and forbid dealing".[76] But it was unlikely the dispute would ever reach that stage: only a few days before Nivison made it clear to the Premier about a proposed loan that "he would not be able to get it underwritten."[77] The state was effectively locked out of the London market. Without the support of the banks and other financial organisations that backed Nivison, there was nowhere else in the City to turn. In the short-term, the state withstood the boycott by finding money in New York, raising two small loans there in 1921-22. But American capital was still too expensive for the majority of empire governments, including Queensland, to make Wall Street a genuine alternative. In 1924, with large maturities falling due in London, the Premier had no choice but to negotiate a settlement with the pastoral companies.

5. Conclusion

This study of the market for colonial securities in London has explored two aspects of the Stock Exchange's internationalisation during the first great era of economic globalisation which finally ended in during the Great Depression. The first is the ways in which the

Exchange adapted its institutional arrangements and informal organisation to cope with an influx of new borrowers and their securities during the mid-nineteenth century. The origins of the general expansion were domestic as well as foreign but, I have argued here, internationalisation was one of the most powerful forces stimulating innovation in response to the new trading conditions.

The second issue considered in this chapter has been the nature of power in the internationalised securities market that emerged after 1850. In the first instance, authority was exercised by the Exchange's Committee as the market's regulatory body. As we have seen, the Committee administered and modified the Exchange's formal rules to minimise risk, improve the quality of information, reduce uncertainty, and ensure that loans were offered in a manner most acceptable to the exchange's membership. As one might expect, self-regulatory power was liable to be used in self-interested ways, although, after the First World War, the Bank of England attempted to exploit the issuing brokers' control of the colonial market to serve its own regulatory ends. But regulatory power always had a wider significance in a market partly constituted by dependent borrowers whose loan operations were vulnerable to disruption by third parties seeking redress for their particular grievances. In these circumstances, the Exchange's authority and market power might be used, or exploited, in ways that translated into a protean informal imperialism whose expressions ranged, as we have seen, from direct attempts to coerce to the subtler institutional pressures to conform to metropolitan standards of credit-worthiness.

Appendix: Capital subscribed to issues by overseas governments in London, public sale, £000

	1865-9	1870-4	1875-9	1880-4	1885-9	1890-4	1895-9	1900-4	1905-9	1910-14	Grand total
National	35,811	146,101	30,133	36,342	51,579	16,245	59,328	35,767	80,332	76,677	568,315
Colonial & Provincial Governments											
Canada	2,478	7,027	9,584	3,265	9,545	7,066	2,516	1,036	16,417	27,888	86,822
Australia	7,154	5,351	19,256	36,012	44,983	28,539	13,396	13,439	13,705	33,082	214,917
India	0	4,825	12,098	8,126	17,848	15,650	32,087	9,956	24,176	17,585	142,351
South Africa	598	113	8,563	12,946	2,620	6,358	5,101	51,940	14,527	10,840	113,606
New Zealand	2,461	4,627	9,010	5,260	7,112	138	2,310	2,767	750	12,508	46,943
Total five colonial governments	12,691	21,943	58,511	65,609	82,108	57,751	55,410	79,138	69,575	101,903	604,639

Note: municipal bodies excluded.

Source: I. Stone, The Global Export of Capital from Great Britain, 1865-1914 (Basingstoke, 1999).

Notes

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[1] Melbourne Punch, 18 January 1883, 29.

[2] For the City in its international context, Youssef Cassis, Capitals of Capital: The Rise and Fall of International Financial Centres, 1780–2009 (Cambridge, 2010).

[3] See especially R.C. Michie, The London and New York Stock Exchanges, 1850-1914 (London, 1987); idem, The London Stock Exchange: A History (Oxford, 1999).

[4] Philip Cottrell, "London's First 'Big Bang'? Institutional Change in the City, 1855-83," in The World of Private Banking, eds Youseff Cassis and Philip Cottrell (Farnham, 2009), 61-98.

[5] The Australasian group of colonies comprised New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania and New Zealand.

[6] This makes North's distinction between "institutions" and "organisations", and also roughly corresponds to Michie's distinction between institution and market; D.C. North, Institutions, Institutional Change and Economic Performance (Cambridge, 1990), 3-5; Michie, London Stock Exchange, 1.

[7] The following three paragraphs are based on E. Victor Morgan and W. A. Thomas, The Stock Exchange: Its History and Functions, 2nd ed. (London, 1969) and Michie, London Stock Exchange.

[8] Michie, London Stock Exchange, 35.

[9] This is an important theme in David Kynaston, "The London Stock Exchange, 1870-1914: An Institutional History" (PhD thesis, University of London, 1983).

[10] Michie, London Stock Exchange, 60.

[11] Ibid., 70.

[12] Morgan and Thomas, Stock Exchange, 88; also P.L. Cottrell, British Overseas Investment in the Nineteenth Century (Basingstoke, 1975), and for service enterprise, P. J. Cain and A.G. Hopkins, British Imperialism, 1688-2000, 2nd ed. (Longman, 2001), chapters 3 and 5.

[13] Morgan and Thomas, Stock Exchange, 140.

[14] Michie, London Stock Exchange, 95.

[15] Quoted in ibid., 70; Michie, London and New York Stock Exchanges, 90.

[16] For an excellent comparative study, Donald Denoon, Settler Capitalism: The Dynamics of Dependent Development in the Southern Hemisphere (Oxford, 1983).

[17] For the Australian colonies, A. R. Hall, The London Capital Market and Australia 1870-1914 (Canberra, 1962); N. G. Butlin, Investment in Australian Economic Development 1861-1900 (Cambridge, 1964); L. E. Davis and R. E. Gallman, Evolving Financial Markets and International Capital Flows: Britain, the Americas, and Australia, 1865-1914 (Cambridge, 2001), chapter 5.

[18] Michie, London Stock Exchange, tables 3.2 and 3.3, 88-89.

[19] All statistics calculated from I. Stone, The Global Export of Capital from Great Britain, 1865-1914 (Basingstoke, 1999) and exclude borrowings by provincial and municipal bodies. "Settler colonies" refer to Canada, Australia, South Africa and New Zealand.

[20] J. A. Hobson, Imperialism: A Study, 3rd ed. (London,1938/1988), 59.

[21] Hobson, Imperialism, 27.

[22] John Darwin, After Tamerlane: The Global History of Empire (London, 2007), 305; James Belich, Replenishing the Earth: The Settler Revolution and the Rise of the Anglo-World, 1783-1939 (Oxford, 2009), 126, 132-33; David Jessop, "The Colonial Stock Act of 1900: a Symptom of the New Imperialism?" Journal of Imperial and Commonwealth History, 4 (1976), 154-63; Gary B. Magee and Andrew S. Thompson, Empire and Globalisation: Networks of People, Goods and Capital in the British World, c.1850-1914 (Cambridge, 2010).

[23] This is a large literature. For the classic statements: John Gallagher and Ronald Robinson, "The Imperialism of Free Trade, 1815-1914," Economic History Review, 6 (1953), 1-15; Ronald Robinson and John Gallagher with Alice Denny, Africa and the Victorians: the Official Mind of Imperialism, 2nd ed. (Basingstoke, 1981), ix-xxiii.

[24] Cain and Hopkins, British Imperialism, particularly chapters 1and 21; A.G. Hopkins, "Informal Empire in Argentina: An Alternative View," Journal of Latin American Studies, 26 (1994), 469-84. This argument, although qualified, is now being incorporated into the canonical accounts of British imperialism, see for example John Darwin, The

Empire Project: The Rise and Fall of the British World System, 1830-1970 (Oxford, 2009).

[25] Morgan and Thomas, Stock Exchange, 151-52; Kynaston, "London Stock Exchange," 158-68.

[26] House of Commons, "Report from the Select Committee on Loans to Foreign States; together with the proceedings of the committee, minutes of evidence," Sessional Papers 1875, Reports of Committees (367), 29 July 1875, vol. 11, q. 467, 23; also see q. 468, 23.

[27] Michie, London Stock Exchange, 87.

[28] Sewell Brothers to Committee of Stock Exchange, 25 February 1862, Applications for Listing, CLC/B/004/F/01/MS18000/022A/0976, London Metropolitan Archives.

[29] E. Barnard to Messrs, Mullens and Marshall, 27 February 1857, South Australia, Parliament, Proceedings with copies of Documents ordered to be printed, 1857-58, no. 126, "Bonds, Correspondence with Agent-General," 12.

[30] Barnard to Colonial Secretary, South Australia, 11 March 1857, "Bonds, Correspondence with Agent-General," 12; General Purposes Committee minutes, 20 March 1857, CLC/B/004/B/01/MS14600/024, fol. 164, London Metropolitan Archives.

[31] Secretary London to Colonial Inspector, no. 788, 24/27 October 1862, Union Bank of Australia, U/120/16, Australia & New Zealand Banking Group Limited (ANZ), Group Archive, Melbourne.

[32] Morgan and Thomas, Stock Exchange, 93, 152; L. Jenks, The Migration of British Capital before 1875 (New York, 1927), 284.

[33] P. L. Simmonds, Fenn's Compendium of the English and Foreign Funds, 8th ed. (London, 1863), 93.

[34] General Purposes Committee minutes, 17 January 1859, CLC/B/004/B/01/MS14600/025, fols. 72-77.

[35] D. Larnach to Saunders, 17 January 1859, U/120/10.

[36] General Purposes Committee minutes, 31 January 1859, CLC/B/004/B/01/MS14600/025, fols. 87-90.

[37] "Victoria (From Our Own Correspondent)," The Times, 2 April 1859, 7.

[38] For examples affecting Argentine public borrowers, Colin Lewis, "British Railway Companies and the Argentine Government," in, Business Imperialism 1840-1930: An Inquiry Based on British Experience in Latin America, ed. D.C.M. Platt (Oxford, 1977), 412-13. Other Australasian examples involved Tasmania during the 1870s and 1880s, New Zealand in the 1890s, and Western Australia in the 1900s. For "business imperialism, " see D.C.M. Platt, "Economic Imperialism and the Businessmen: Britain and Latin America before 1914," in Studies in the Theory of Imperialism, eds. Roger Owen and Bob Sutcliffe (Harlow, 1972), 297. Platt disputes the effectiveness of this form of business imperialism. The point here is that it was relatively commonplace.

[39] Bernard Attard, "From Free-imperialism to Structural Power: New Zealand and the Capital Market, 1856-68," Journal of Imperial and Commonwealth History, 35 (2007), 505-27.

[40] General Purposes Committee minutes, 7 March 1859, CLC/B/004/B/01/MS14600/025, fols. 113-14.

[41] Bernard Attard, "New Estimates of Australian Public Borrowing and Capital Raised in London, 1849-1914," Australian Economic History Review, 47 (2007), 155-77, 169-71.

[42] General Purposes Committee minutes, 19 and 29 August 1859, fols. 233-34, 236-37; 26 September 1859, fols. 251-52, CLC/B/004/B/01/MS14600/025.

[43] Secretary to Manager, Brisbane, 23 October 1862, U/120/16; Steer Cuerton & Lawford to Committee for General Purposes, 15 October 1862, CLC/B/004/F/01/MS18000/022A/976; General Purposes Committee minutes, 25 August, 6 October, and 16 October 1862, CLC/B/004/B/01/MS14600/027, fols. 59, 78, 84.

[44] Secretary London to Manager, Brisbane, 23 October 1862, U/120/16.

[45] General Purposes Committee minutes, 22 October 1862, CLC/B/004/B/01/MS14600/027, fols. 89-90.

[46] In 1870, South Australia was forced into a pointless public offer of £30,000 debentures after the Committee refused to grant a quotation if they were placed privately; General Purposes Committee minutes, 17 June 1870, CLC/B/004/B/01/MS14600/034, fol. 170; The Times, 15 July 1870, 10.

[47] General Purposes Committee minutes, 31 January and 4 February 1876, CLC/B/004/B/01/MS14600/040, fols. 264, 275; memorandum, by order Francis Levien, Stock Exchange, 7 February 1876, enclosed with D. Larnach to S. Smith, 18 February 1876, Bank of New South Wales, GM204/12, Westpac Banking Corporation, Westpac Historical Services, Sydney.

[48] Coincidentally, Cottrell also marks the end of the mid-nineteenth century "Big Bang" in the late1870s ; "London's First 'Big Bang'", p. 97.

[49] Kynaston, "London Stock Exchange," 127-58.

[50] Davis and Gallman, Evolving Financial Markets, 155, emphasis in the original; see also, Michie, London Stock Exchange, 141.

[51] Minutes, London Committee, 30 December 1858, Victoria, Legislative Assembly, Documents Ordered to be Printed, 1859-60, C2, "The Whole of the Correspondence between the late Government and the six Banks having reference to the Sale of our Debentures in London."

[52] Larnach to Smith, 30 October 1868, GM204/4.

[53] General Purposes Committee minutes, 16 October 1862, CLC/B/004/B/01/MS14600/027, fol. 84.

[54] Secretary London to Acting Superintendent, no. 1145, 17 February 1860, A/51/13, ANZ Group Archive, Melbourne.

[55] J. Cummins to Colonial Inspector, no. 885, 26 November 1863, U/120/18.

[56] Between 1858 and 1862, Stock Exchange members submitted bids for between 86 to 98 per cent of the amounts sold; see the statements of account of each of these operations printed in, Victoria, Legislative Assembly, Documents Ordered to be Printed, 1859-60, A45 and C2; 1860-61, no. 57, and 1862-63, no. 16.

[57] 'Syndicates', *Economist*, 16 August 1873, p. 994; also see Hall. London Capital Market, 77-80; Morgan and Thomas, Stock Exchange, 89-90. For a discussion and examples with reference to Japanese loans, T. Suzuki, Japanese Government Loan Issues on the London Capital Market 1870-1913 (London, 1994), 25-27 and passim.

[58] The Economist, which was unremittingly hostile to "these cliques", persistently conflated the two types of syndicate, e.g. "The Financing of the South Australian Loan," 7 February 1891, 168-69; for "cliques", "The Lesson of the Victorian Loan," 18 April 1891, 494. Hall also believed the two forms of syndicate were identical, London Capital Market, 101.

[59] Financier, 10 January 1883; cutting in Public Record Office Victoria, Melbourne: VPRS 1225, box 1, file 83R/10115. Emphasis in original.

[60] This is an important theme in Michie, London and New York Stock Exchanges.

[61] F. Dutton to Treasurer, 20 January 1875, South Australia, Parliament, Proceedings with copies of Documents ordered to be printed, 1875, no. 98, "Sale of Bonds and Consolidation of Bonded Debt."

[62] The Economist, "The Financing of the South Australian Loan," 7 February 1891, 168-69; "The Lesson of the Victorian Loan," 18 April 1891, 493-94; "Colonial Finance and the Market for Colonial Loans," 30 May 1891, 694-95; Hall, London Capital Market, 78, 101-2.

[63] W. Perceval to Premier, 9 June 1892, New Zealand, Parliament, Appendices to the Journals of the House of Representatives, B-21, 1893, 5.

[64] "The Science of Underwriting," Economist, 26 April 1890, 517-18; Hall, London Capital Market, 78-79; Kynaston, "London Stock Exchange," 134-36; Davis and Gallman, Evolving Financial Markets, 172-73.

[65] For further comments about the origins of underwriting in the Australasian market, Hall, London Capital Market, 78-79, 101-2; Suzuki, Japanese Government Loan Issues,

29-30; Bernard Attard, "Marketing Colonial Debt in London: Financial Intermediaries and Australasia, 1855-1914," conference paper, accessed at <http://www.esrc.ac.uk/my-esrc/grants/R000223775/read/>

[66] Scrimgeour was the broker used by the Crown Agents of the Colonies; Mullens was employed by the Bank of England and the Treasury.

[67] R. S. Gilbert, "London Financial Intermediaries and Australian Overseas Borrowing, 1900-29," Australian Economic History Review, 10 (1971), 39-47, 41-45; R. T. Davenport-Hines, "Lord Glendyne," in Australian Financiers: Biographical Essays, eds. R. T. Appleyard and C. B. Schedvin (Melbourne, 1988), 190-205.

[68] T. Schilling, London als Anleihemarkt der englischen Kolonien (Stuttgart and Berlin, 1911), 46.

[69] Montagu Norman Diary, 14 and 27 February 1928, ADM34/17, Bank of England Archive.

[70] The Register (Adelaide), 29 July 1908, quoted in R. S. Gilbert, "London Financial Intermediaries," 42.

[71] Michie, London Stock Exchange, 113-16.

[72] Ibid., chs 4 and 5; John Atkin, "Official Regulation of British Overseas Investment, 1914-1931," Economic History Review, 23 (1970), 324-35; D.E. Moggridge, British Monetary Policy 1924-1931: The Norman Conquest of $4.86 (Cambridge, 1972), 199-227; Bernard Attard, "Moral Suasion, Empire Borrowers and the New Issue Market during the 1920s," in The British Government and the City of London in the Twentieth Century eds. R. C. Michie and Philip Williamson (Cambridge, 2004), 195-214.

[73] Attard, "Moral Suasion", 196-97 and table 10.1.

[74] Ibid., 195-214.

[75] B. Schedvin, "Theodore and the London Pastoral Lobby," Politics, 6 (1971), 26-41, 33.

[76] Conference with Premier, 8 June 1920, General Purposes Committee, minutes of sub-committees of a non-permanent character, Stock Exchange, CLC/B/004/B/33/MS14609/007, London Metropolitan Archives.

[77] Cablegram to Acting Premier Fihelly, Brisbane, 6 June 1920, Queensland State Archives: item ID 862856.