The Rise and Fall of the Oriental Bank in the Nineteenth Century: A Product of the Transformations that Occurred in the World Economy or the Result of its Own Mismanagement.[1]

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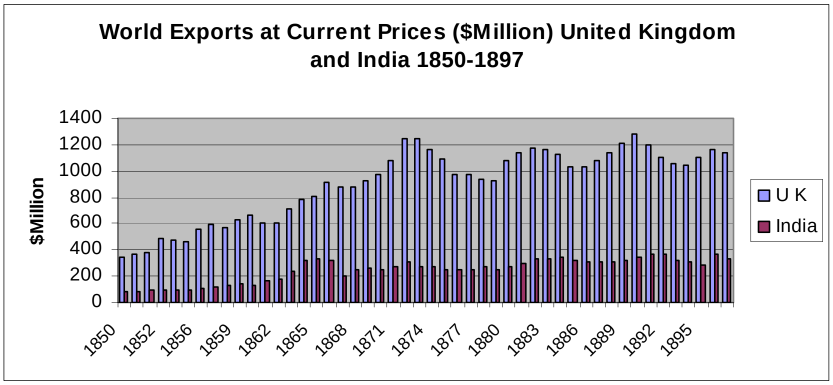
Introduction:

The history of capitalism from the late eighteenth century on, when industrial capital began to impose itself on other forms of capital, can be seen as a series of stages, each of which was defined by an ongoing process of expansion, integration and accumulation of capital, on the one hand, and a series of contradictions and crises, on the other. It was a conjuncture of forces that gave rise to uneven development, that was characterized by an ongoing series of short-term economic cycles that tended to occur every five to ten years, and long waves that emerged every 20 to 25 years, during which time the cycle took an upward or a downward turn. In each instance, whether it be a short term cycle, or a long term wave (upward or downward), the outcome was determined by the relationship between the various forms of capital, and between capital and labour, and by the different modes of surplus appropriation. Directly related to this were the major political upheavals, that forced the accumulation process to adjust to the impact. [2]

Around the middle of the nineteenth century, the world came out of what had been a long economic slump that had begun in the 1820s and had manifested itself in a range of ways. Not only had the rate of growth continued to decline throughout this time, but the period as a whole was characterised by a series of sharp fluctuations, during which the economy went into recession, and the end of which was signalled by a major short term crisis in the accumulation of capital between 1847 and 1848. As the global economic engine, Britain played an important role in defining how this unfolded. Certainly, India, which had been colonised by Britain, was shaped in many ways by this relationship. Throughout this period, despite some growth, the Indian economy had remained largely stagnant, starved as it was of capital. Over the next two decades or so, from 1848 to 1873, there was, in spite of a number of political upheavals (Crimean War, Indian Rebellion, American Civil War, Franco Prussian War), a clear revival in the world economy and in the process, the Indian economy, displayed a clear increase in the rate of growth and a widening in its base of exports to overseas markets, alongside a parallel increase of imports. At the end of this period, interspersed with a number of short term economic shifts, there was a long global economic slump, sometimes referred to as the Long Depression, beginning around 1873, and ending in the 1890s, the particular year being determined by domestic factors. Again, India reflected the global down-turn, which was shaped in a number of ways by its colonial ties.[3] What this paper attempts to do is investigate one aspect of this development by focussing on the emergence of the exchange banking system, noting how, in the case of India, money capital was linked, by means of a system of exchange banks, into a developing global capitalist system in the second half of the nineteenth century. It will do so by means of a case study of the first exchange bank to operate out of India: the Oriental Bank.

Chart 1



Source: Lewis, Arthur. 'The Rate of Growth of World Trade, 1830-1973', in *The World Economic Order: Past and Prospects*, edited by Sven Grassman and Erik Lundberg. London and Basingstoke: The MacMillan Press Ltd, 1981, pp.38-56.

Founded in 1842, as a joint stock bank, the Bank of Western India was reconstituted in 1845, changing its name to the Oriental Bank and moving its head office from Bombay to London. It was a move that appeared to cause some consternation in Bombay, where, according to an article in *The Times*, the shareholders were dissatisfied with the expense and conduct of their London directors. However, it was an issue that appeared to fade, largely, it would seem, not only because control resided in London rather than Bombay, but also because there was much more available investment capital in the former than the latter. Of more importance, around this time was the Oriental Bank's take-over, in 1849, of the Bank of Ceylon, which had been established in 1841, incorporating the rights that went with joint stock banking in Ceylon. More generally, it could be seen as part of a movement towards joint stock banking in India, that both followed in the footsteps of joint stock banking that began to emerge in England from around the middle of the 1820s, and that challenged the old agency houses in India. Eventually, in 1851, it was granted a royal charter that enabled it to undertake international exchange banking in the trading region east of the Cape of Good Hope. In response to this new status it changed its name, yet again, to the Oriental Bank Corporation. As the first of the Eastern Exchange Banks to centre its activities on India, it would provide a reference point for the other exchange banks that followed. Over the next twenty-two years, in the wake of what was a long economic boom, in which the Indian economy grew at a fairly rapid rate, it managed to establish a very successful exchange banking operation that linked India to Britain and to other parts of the globe. In so doing, it survived what was a major crisis in credit in the middle of the 1860s. In 1873, however, when the global economy began to turn downwards, the Oriental Bank Corporation began to encounter new conditions that were emerging as a result of the transformation in the world economy, which was manifested by a fall in prices, a decline in the growth rate of foreign trade, and a changing and at times unstable system of international currency, that was highlighted by a series of international conferences that sought to address the question of bimetallism. As the world sank deeper into recession, the inability of producers to realize the value of their commodities on the world market, saw machines lie idle and industrial capital stagnate. Indeed, it was not until the 1890s – somewhere between 1893 and 1898 depending on the country – that the global economy began to move once more into an upward swing. Ironically, however, the Oriental Bank Corporation was unable to profit what would prove to be a rapidly growing economy. Indeed, while it had succeeded in building a very sound banking operation through until the 1870s, it began to struggle from around 1878, ceasing to operate in 1884 and then revived as the New Oriental Banking Corporation in the same year, until ultimately it was placed in liquidation in 1892. By this time, its business practices had deteriorated to the point where it was accused of engaging in speculative and, even at times, fraudulent behaviour. Was its failure, then, a product of changes in the world economy or the result of mismanagement or, indeed for that matter fraud?

The Background to the Emergence of Exchange Banks in India: 1820s-1840s:

In the second quarter of the nineteenth century, although there was some growth in India's economy, there was a sense that it was stagnating and not realising its potential. While this was clearly related to the downturn in the world economy during this period, it was also linked to a form of imperialist rule that did little to transform the production process. Certainly, the textile manufacturers in Lancashire were very vocal in attacking the East India Company (hereafter EIC) for having failed to provide the infrastructure necessary for effective capitalist development. Indeed, the EIC failed to make an impact on the process of production that was backward not only in the way that it produced goods but also in the way it transported commodities and circulated money. In the case of the latter, it was hampered, especially, by the fragmented manner in which overseas trade was transacted.

Banking functions during this period were carried out by quasi-state banks called presidency banks, which were situated in Calcutta, Bombay and Madras; indigenous banks which were spread over the country; the Union Bank of Calcutta, which was established in 1829; the EIC; the large agency houses, which were based in India and London; and a group of joint stock banks. Of these, the Union Bank, the EIC and the agency houses were primarily responsible for facilitating foreign exchange transactions, especially overseas trade, which embraced, Britain, Germany, Holland, Malta, Portugal, Spain, China, Singapore, Java, Manila, America, Australia, the Persian Gulf, Mauritius, and Mozambique.[4] In particular, the EIC provided advances by the sale of bills on England secured by the hypothecation of produce shipped to England, and by the sale of the company's bills in England on India. In this way, the EIC advanced the funds, and the merchant to whom the advance was made, gave a bill upon his agent, and delivered to the government the bill of lading of the cargo, as collateral security. More simply, the EIC acted as both a trading and banking corporation, by buying bills in India and by selling their own drafts on India in London. By the 1840s, it had derived approximately a third to a quarter of the total remittances from the buying of bills in India and the rest from selling these drafts in London.[5]

While it was a system that had clear advantages over the more traditional method of remitting gold or silver in exchange for commodities, it was strongly opposed by the leading merchants in Calcutta, who, in terms of annual remittances to London in the mid-1840s, transferred £750,000 compared to the EIC's £3,250,000,[6] and who clearly felt that the EIC was impinging on their rights. As these merchants pointed out, given that the Company's trading charter had been revoked by the Charter Act 1833, its sole function should have been political. They also argued that the system tended to stimulate over trading and give rise to speculation; and that the rate of exchange, which was dependent mainly on the political exigencies of the state, was uncertain and beyond the reach of market forces. This in turn deterred the more prudent foreign exporter from engaging in trade with India.[7] There was clearly some substance to this argument, as the EIC varied the rate of exchange for bills on India, from 20 *1/4*d to 25 *1/2*d for the rupee, between 1833 and 1849. Indeed, not only was the rate varied according to the purpose of the exchange but it was also altered in the case of remittances according to the amount that the home government wanted and the date by which it was required.[8] It was suggested that this system of hypothecation should be closed and that a body of exchange dealers for India should be established.[9] While these recommendations were largely ignored, the EIC was destined to lose its remaining powers within a few years, opening the way for a new system of exchange to evolve. Indeed, by the time of the Charter Act of 1853 that transition had taken place.

In the meantime, the Union Bank of Calcutta and the large agency houses, the two other major providers of foreign exchange facilities from the private sector, struggled in the face of ongoing crises that characterised the long slump between the mid 1820s and the late 1840s.In particular, the weaknesses that underpinned the multi-faceted business activities of the agency houses became more evident as credit became tighter. By the late 1820s, while they had invested very heavily in indigo, sugar, ships, buildings, docks and mercantile firms in Singapore, Java, Manila and various places within India's trading orbit, in a number of these cases, the investments were speculative, placing them at risk to sudden shifts in the supply of money. Such was the case in 1828 and 1829, when a number of smaller firms were unable to meet credit obligations and were forced to close. They were in turn followed by the collapse of the six largest agency houses in Calcutta. Beginning with the failure of Palmer and Co. in 1830, and ending with the suspension of Cruttendon and Co. in 1834, the liabilities of the six houses amounted to over £17,000,000, which, when taken together with the closure of three others agency houses- one in Bombay and two in London - produced an aggregate liability of failed agency houses of over £19,000,000. Some thirteen years later, in 1847-48, in the wake of another credit crisis, most of the remaining agency houses ceased to operate as did the Union Bank of Calcutta. While their most important function was banking, these agency houses operated in a range of businesses, not only as domestic and overseas bankers, but also as merchants, agents, and as managers of indigo factories. It was suggested that the collapse of these agency houses reflected this lack of specialisation and demonstrated the principle that banking must be carried out on its own grounds, free from the constraints of any other economic activity. Yet, it was also argued that the collapse of the six great agency houses was the result of “mismanagement, wild speculation and extravagant living, capped by the withdrawal of large sums of money by retiring partners.”[10] Certainly, as a consequences of these huge losses, both European and Indian investors grew very wary of the agency houses, and began to turn to joint stock banks which had begun to emerge as the agency houses went in to decline.

Distributed over the country, these joint stock banks began to replace the agency houses as the preferred source of banking among civilians and military personnel. Beginning with the Agra and United Services Bank in 1833, by 1847, there were nine such banks, including the Oriental Bank, spread over India, with branches and agents in Calcutta, Bombay, Madras, Agra, Cawnpore, Delhi, Simla, Benares and Dacca. As they appropriated a great deal of the business of the old agency houses, especially in deposits that came from government servants and military officers, these joint stock banks were accused by the agency houses of stealing their customers. However, they were defended by reputable financial journals in London such as the *Bankers’ Magazine* which argued that they had gained this custom by providing a much better and safer banking service.

By the early 1850s then, the traditional sources of international exchange banking had, for the most part, ceased to function, giving rise to a need that was met by the emergence of a new system of exchange banking in India, based on the idea of British colonial exchange banks, that had already been implemented in other parts of the empire. By drawing on the larger joint stock banks that had been established in the 1830s and 40s, by extending their exchange operations through the granting of a royal charter, and by shifting the head offices of these banks from India to London, the imperial state gave rise to a set of banks, titled the eastern exchange banks, in the 1850s and 1860s. This transition to exchange banking can be seen in terms of the broader capitalist development that was taking place in the world economy in the third quarter of the nineteenth century. Characterised by an upward turn in the economy, that would be marked by a series of short term business cycles, the most important of which was between 1861 and 1866, this long economic boom reflected changes that were occurring in the global circulation of capital at that time. In defining more clearly the ties between India, London and the broader global market, these banks would help facilitate the integration of the production, circulation and realisation of capital in the accumulation process, particularly in relation to its linkages with Britain, India and the trading world east of the Cape.

The First of the British Colonial Exchange Banks in India:

Pivotal to the move toward exchange banking was the Oriental Bank. Having assumed joint stock bank status in 1842, built up its banking business during the 1840s, located its head office in London in 1845, and survived the “crash” of 1847-1848, through prudent management, the Oriental Bank continued to operate cautiously, as it entered the 1850s, restricting its business so as to ensure that its dealings were carried out on a sound basis. At the same time, it also looked to the future in expanding its operations, by taking over the Bank of Ceylon, which had crashed in 1849. While this involved spreading its capital, it was seen as a good safe investment, in that it placed the bank in a position to command the business of Colombo free from rivalry. Indeed, having made applications to the Treasury and India-House on 14 August 1850,[11] the Oriental Bank had yet to receive a charter and as such its shareholders were exposed to unlimited liability in the event of the bank failing, whereby not only would the money they had invested in the bank be lost, but they would also be liable, as shareholders, for the excess of liabilities over assets. By effecting an arrangement with the Bank of Ceylon, it placed itself in a much stronger position of obtaining a charter that would enable it to engage more fully in exchange banking. Significantly, when asked, at the annual general meeting in 1852, how much capital would have to be employed at their Colombo Branch and what level of profit it would generate, the chairman indicated that he could not reveal those details at the meeting because it would furnish other banks with the power to enter into competition with them. It was a revealing comment in that it highlighted how the competition between banks and rumours and secrecy about their activities would underline the behaviour of exchange banking over next four decades.

While the EIC strongly opposed the Oriental Bank's application for a royal charter, it was overruled by the Lord Commissioners of the Treasury, who awarded the bank a charter in October 1851. In so doing, they signalled the beginning of a new exchange banking system, by constituting the Oriental Bank as a bank of issue in Ceylon and China, and by empowering it to carry on exchange, deposit, and remittance business anywhere to the east of Good Hope. The conditions of the charter also required that specie should always be held equal to one-third of the amount of circulation, that monthly returns were to be published along with other requirements, and that the liability of the shareholders was to be limited and to be fixed at twice the amount of their respective subscriptions. Clearly this charter was an acquisition that would considerably enhance the Oriental Bank's business in the east.[12] In the short term, however, the Bank, which was renamed the Oriental Bank Corporation, was shaken by the loss of funds, through fraud, when the heads of two important departments in the Bombay branch, the ledger-keeper and the shroff, were accused of embezzling some Rs.100,000.[13]

While it was an inauspicious start, in the years that followed, the benefits of a revival of trade in India in the wake of a new long upward wave, and of the grant of a royal charter to the Bank, soon became evident. At the first annual general meeting of the Oriental Bank Corporation on 29 May 1852, the directors commented on the prosperity of the Bank and the greatly improved position that it now enjoyed under the privileges of the royal charter Incorporation. For the shareholders the news was good, with the dividend providing an overall return of 12% for the year.[14] Nearly a decade later in 1860, the Oriental Bank Corporation had developed into a profitable exchange bank, having accrued a net profit of £214,757 and returned a dividend of 16% for the year ending 31 December 1860, a dividend which was the second highest of all the banks in London. It was a point at which the chairman of the board chose to reflect on the growth and success of the bank throughout the 1850s. As he noted, from 31 August 1851, when the bank commenced business as a corporation, until 31 December 1860, capital had grown from £600,000 to £1,260,000; £1,329,464 had been divided among shareholders by way of dividends and bonuses; cash deposits had grown from £529,000 to £6,300,000; and the market price of each share had risen from £25 to £50. It was a situation that appeared likely to improve, given that trade was on the increase and that the reserve fund of £252,000 was seen to be adequate to meet all requirements.[15] While the bank could attribute its success to the rapid increase in trade between India and Britain, it was also a product of the growth in trade between India and those countries that were linked through an expanding network of branches spread across the Indian and Pacific Oceans. Indeed, its business had, from an early stage, been extended to Australia, through the opening of branches in Melbourne and Sydney, where it tapped the gold discoveries, as well as to Mauritius, where it invested in the sugar industry. In the decade to follow, however, it would face increasing competition from other exchange banks that began to emerge around this time.

Attracted by the rapid expansion of trade between Australia, India, the Eastern Archipelago and China; the opening up of opportunities for exchange with the failure of the large agency houses in Calcutta, Bombay and London; and the success of the Oriental Bank Corporation; other joint stock banks sought royal charters. For example, the Chartered Bank of India, Australia and China, which was established in London, was granted a charter in 1853 and began operating in 1857. It was followed by the Chartered Mercantile Bank of India London and China, which was granted a charter in 1857 and began business in 1858. Like the Oriental Bank Corporation, the Chartered Mercantile began life as a joint stock bank in Bombay, before moving its head office to London, where it was awarded a charter and where it sought to model itself on the Oriental Bank Corporation. Such activities saw the shareholders of the Oriental Bank Corporation express concern in 1862 about what they saw as an increase in banking establishments, giving rise to excessive competition and a decline in profits.[16] Certainly a rise in competition was evident in the number of colonial exchange banks that had been established around the same time as the Chartered Bank of India, Australia and China and the Chartered Mercantile Bank of India, London and China. In particular, there was the Agra and United Services Bank, which had been incorporated in 1857; the Asiatic Banking Corporation which was granted a charter in 1864[17]; and the Commercial Bank of India, which had applied for one in 1862.[18] Alongside these banks, there were joint stock banks, such as the Royal Bank of India[19] and the Scinde, Punjaub, and Delhi Bank Corporation, Ltd, that were planning to engage in exchange business in subsequent years. Such banks were driven by the notion that not only was India developing very rapidly, but also the Indian and Pacific Oceans represented an expanding trading region. For instance, while the Scinde, Punjaub and Delhi Bank Corporation's immediate aim was to develop the resources of those territories that were "drained by the Indus and its tributaries", its longer term brief was to embrace the commerce of India as a whole and then extend its operations to the "rising and important colonies of Australia."[20]

While these new exchange banks competed with the Oriental Bank Corporation through its head office in the City and through its main branches in Bombay and Calcutta, they also sought to establish branches and agencies throughout the trading zones where the Oriental Bank had already set up offices. For example, in 1863 the Chartered Bank of India, Australia and China opened a new branch at Rangoon, made provisions for another one at Karachi and was exploring the possibility of yet another in Batavia; and the Commercial Bank of India set up a sub-agency in Hankow to link up with another branch at Shanghai. In 1864, the Chartered Mercantile Bank of India, London and China purchased premises for its branches in Bombay, Colombo, Singapore, Shanghai and Yokohama, as well as opening agencies at Point de Galle, Newera Ellia, Tuticorin and Hankow.[21] In that same year, the Agra and United Service Bank purchased premises/land for branches in Sydney, Shanghai and Madras,[22] and opened an agency in New Zealand, with the New Zealand Banking Corporation.[23] In the meantime, the Oriental Bank Corporation continued to fuel the competition by linking up with the newly established British and American Exchange Banking Corporation, which aimed to finance trading activities between India, China, America and Britain, whereby it would coordinate the business to be carried out between America, the ports of India and China. Based on large scale exchange dealings, this enterprise was seen to be have a "large margin of profit" and to be "comparatively safe."[24]

EXCHANGE BANKS UNDER PRESSURE

Punctuating this long period of economic expansion was a short-term business cycle that was precipitated by the outbreak of civil war in the US in April 1861. Lasting until 1866, it was initially driven by the need for an alternative supplier for cotton, in the wake of that supply being cut off from the US. In so doing, it created the basis of a short-term boom in commerce and banking in London, India and the Far East, so much so that, among others, the eastern exchange banks reported record profits and dividends for 1863. By the end of 1864, however, the exchange banks, along with other forms of banks and merchant firms, were beginning to feel the pressure that came from further shifts in the world economy, shifts which gave rise to a crisis in credit. As a consequence of an oversupply of commodities such as tea, sugar, cotton and jute, the price of these goods fell on the world market. In the case of cotton, in particular, when the civil war ended in April 1865, the impact on the Indian cotton market in the period that followed was severe. For the exchange banks, which held security on these exports as a result of taking bills hypothecated on such produce, not only was the value of these goods falling but the firms by whom the bills were drawn were failing.[25] Indeed, with the exception of the Oriental Bank Corporation and the Hong Kong and Shanghai Banking Corporation, which began operating in 1865, the other exchange banks found the uncertain conditions difficult to address. For example, in May 1865 the Chartered Mercantile Bank of India, London and China chose to close its branches at Newera Ellia and Tuticorin as well as its branch in Mauritius, when it was determined that they were not operating profitably.[26] By October of the same year, the directors of this bank were unable to submit an accurate statement of banking business for the previous six months because it had been involved in severe losses, which could not be assessed until estates were wound up, or until produce, which it held the hypothecation on, was sold.[27] Similarly placed was the Chartered Bank of India, Australia and China, which, as a result of the commercial crisis in the east, especially the very large losses in Bombay, was only able to return a very small profit of £38,000, As the chairman had noted, the sharp decline in profit was the product of a recession in trade which saw large losses in business associated with cotton, tea and silk; heavy losses in Bombay, accentuated by the very poor performance of the bank manager who, having been sent out to India with strict instructions from head office to decline all local business, had failed to do so; and the intense competition that had emerged as a consequence of the excessive number of banks.

However, much worse was to follow in 1866, when, within a week in May, the Bank of England raised rates from 6% to 10% and then, on 10 May, refused a request from Overend, Gurney and Co., one of the leading banks in the City, on 10 May, for help of £400,000 on the grounds that its securities were not satisfactory. When this bank closed that afternoon, the effect on the City was, according to the *Bankers' Magazine,* like an "earthquake". It caused a run on the Bank of England which saw its reserves drop from just under £6,000,000 to £3,000,000 in one day. It was followed by the closure of nine other banks within the City. Of these one was an exchange bank, the Commercial Bank of India and the East,[28] which had suffered significant losses at its Shanghai, Bombay and San Francisco branches.[29] In the following month the situation further deteriorated for Indian exchange banks when the Agra and Masterman's Bank, which was the product of an amalgamation in 1864-5 between the old Agra and United Services Bank and Masterman, Peters, Mildred and Co.,[30] was suspended on June 6, causing great consternation among the exchange banks, in that it was held up as a model after the Oriental Bank Corporation as to how an exchange bank should operate. Coming as it did, when credit was very scarce in Calcutta, and given the excessive speculation that had occurred in cotton in Bombay, the negative news from Britain saw the branches in India, unable to cope with the demands made on them, close down. Underpinning this development was the difficulty of managing an operation spread over so many branches across a wide segment of the globe. While the Paris Branch, which it had recently set up might be seen as an error, it was at least manageable. The same could not be said of the branches in India or, for that matter, China or Australia. It was suggested that had the Bank retained its head office in India with a branch in London it would have remained in operation.[31] It was a management problem that would haunt the exchange banks in the years to come; for while the expansion of a telegraphic system helped address some of the difficulties that arose out of this situation, it was costly, at times technically inefficient, and in crises given to accentuating rather than resolving problems.[32] Certainly, the problem of controlling a growing number of branches and agencies spread across the globe would cause the Oriental Bank Corporation a great deal of anxiety in the future.

While the Agra Bank had attracted most interest among Indian exchange banks, it was the Oriental Bank Corporation that appeared to handle the crisis most effectively. While its returns for 1864 were not as good as those of 1863, the Bank continued to trade well in the circumstances, declaring a dividend for the year of 16%. At the same time, the chairman did emphasise at the annual general meeting for that year that the economy was undergoing a severe downturn, giving rise to direct losses in profits, which were, he added, also significantly affected by the very serious competition that was evident in those cities and countries where the Oriental Bank Corporation carried out its banking business.[33] In spite of the difficulties arising out of increased competition, the Oriental Banking Corporation was doing very well in comparison to the other main eastern exchange banks; namely the Agra and Masterman's, the Chartered Bank of India, Australia and China, and the Chartered Mercantile Bank of India, London and China. In 1865, it continued to prevail with its share price listed at £51, over twice the original value of the share.[34] Again, at its annual general meeting held on 19 April 1866, it was able to report a profit, after paying expenses and doubtful debts, of £155,137 out of which £150,000 was set aside for a dividend of 10%, leaving £5,137 to be carried forward as credit of the next account. When a shareholder asked why the bank, with paid up capital of £1,500,000 and a reserve fund of £444,000, had not paid a higher dividend , the chairman indicated that, unlike those who managed some other exchange banks, the directors did not care to put the Bank at risk.[35] Certainly, it was a sentiment that appeared to be appreciated by shareholders, as was the case at a half yearly general meeting in October 1866, when, in what had been a very bad year for banks, the directors were able to declare a half yearly profit of £111,723, and a dividend of 12% per annum. It was a result that was well received by the shareholders, with H.L. Anderson, late of the Government of Bombay Council, delivering a vote of thanks. In noting the events of the previous eighteen months, both in England and in India, he was strongly applauded in claiming that "the able management of the business of the bank by the directors, [had] not only conferred upon us substantial benefits, but has saved us throughout a most trying crisis from great difficulties and dangers…Their [directors] success has been the result of a well devised general system."[36] By this stage, in fact, the Bank believed that, while it had "experienced great competition in the east", owing to the "collapse of the financial establishments" and the "soundness and stability of their company, the competition was gradually dying out and would in all probability disappear."[37]

In the period immediately following the crisis of 1866 then, the exchange banks began to reorientate themselves and reflect on the upheavals that had occurred. On the one hand, they recognised the potential benefits of the rationalisation that had occurred with the suspension or liquidation of 21 Indian banks (exchange and joint stock), and, on the other hand, they were confronted by the slow down in the economy, which gradually recovered before moving into a long slump in 1873-74. In the case of the rationalisation process, those banks that remained benefited as a result of the concentration of capital and a less competitive market in so far as their own business was concerned. In the case of recovering the economic ground which they had lost, they sought to remain as liquid as possible by concentrating on exchange transactions. Above all, as annual reports would emphasize, these banks claimed to be aware of the necessity of adopting and adhering to appropriate banking practices. By this time then, there were six eastern exchange banks operating, which, according to size (balance sheets), were as follows: the Oriental Bank; the Hongkong and Shanghai Banking Corporation; the Chartered Mercantile Bank of India, London and China; the Chartered Bank of India, Australia and China; the reconstituted Agra Bank; and the National Bank of India. Of these the Hongkong Bank, as noted, and the National Bank of India were recently established. Indeed, the Hongkong Bank, which had begun operating in 1865, and which had quickly assumed the position of the second strongest bank, had unlike the other eastern exchange Banks, established its head office in Hongkong rather than the City of London. Unencumbered by the constraints of the imperial factor in so far as it was expressed through the tight networks of the City, it tended to flourish and by the end of the century would , emerge as the most powerful of the exchange banks.

In the meantime, however, the Oriental Bank Corporation remained the leading eastern exchange bank. Unlike most of the other exchange banks, it had not been badly damaged by the events of 1866. It was not involved in the failure of the Commercial Bank, it had no connections with Overend Gurney, and it lost no more than £4,000 in the Premchand Roychand failure in India.[38] Indeed, in 1872, near the end of a long economic boom, its a balance sheet of £21,807,913 was over twice that of the next highest bank, the Hongkong and Shanghai Banking Corporation. In nearly every respect, its itemised account was much larger, proportionally, than the other banks. Similarly, its profits and its dividends were, on average, significantly higher than the other banks. Again, more than any other eastern exchange bank, it had successfully ridden the long economic upward wave of the third quarter of the nineteenth century, especially the fluctuations that occurred between 1861 and 1866. Indeed, when its performance for 1872 is compared to that of 1852, when it completed its first year as the Oriental Bank Corporation, its growth can be seen to have reflected the long economic upward swing that defined that period. In that time, as its business continued to increase, so too did its reserve fund and its annual dividend. When measured as a percentage of its paid up capital - £818,695 in 1852 and £1,500,000, in 1872 – its reserve fund increased from 21% to 30% and its dividend from 12% to 15%. [39]

THE LONG SLUMP:

While the Oriental Bank Corporation continued to grow until 1872, thereafter it increasingly came under pressure. In the first instance, this pressure arose when one of the leading merchant firms in the City, Gledstanes and Company, failed in August 1872. Suffering from losses arising out of the crisis of 1866 and the decline in prices for export commodities from India, it collapsed when it was unable to meet the credit extended to it by, among others, a number of exchange banks. Prominent among these was the Oriental Bank Corporation with a claim for £67,000. When this figure was not specified in the Bank's half-yearly report on 17 October 1872, Dr Thom, a shareholder, sought clarification from the chairman, James Blythe, who indicated that the "utmost claim is £67,000, but that there is a prospect of recovering £24,000, which will leave us with a loss of £43,000, but that loss has been amply provided for." Thom, who was clearly unhappy with this response, wanted to know how the Bank could afford this debt and how such a payment was a most unsatisfactory use to make of the Bank's profits. He urged the directors to be on their guard for any such contingencies in the future, otherwise they would become certainties.[40] It has been argued that, like other exchange banks such as the Chartered Mercantile Bank of India, London and China, the Oriental Bank did not foresee the outcome of the hazardous nature of the trade, as it held Gledstanes in high regard, given that one of the partners of this firm was a director of the Bank of England, another of the London and Westminster Bank, and yet another of one of the oldest Insurance Companies in the City.[41] However, given that debt, it could be argued that the Bank should have lowered the dividend payment to cover costs. Instead, it continued to deliver a high dividend as it had done in the past, even though it ran counter to the policy that the chairman of the bank had advocated a few years earlier in addressing the 1866 banking crisis. While this action could be seen as a means of appeasing shareholders, the Bank's adherence to past policy in paying high dividends was also evident in its ongoing commitment to the expansion of its branches and agencies, when, around this time, it opened a new branch it Port Elizabeth, South Africa, to which it linked a number of agencies,[42] and expanded its operations over a still wider fraction of the globe. Nonetheless, by 1876, there were concerns that the economic climate was changing, with the Bank's profit coming in much lower than in previous years owing to the "steady decline in eastern exchanges", to the fall in the Indian Government rupee paper, and to the depressed state of commercial and monetary affairs throughout the year.[43] Yet, there appeared to be no attempt by the Oriental Bank Corporation to change its practices to address the changes that were occurring.

Indeed, what these changes signalled was a major shift that was occurring within the world economy that would directly impact on the business of the Oriental Bank Corporation and other exchange banks. By 1873, the world economy was beginning to experience a downturn that represented the early stages of a long economic slump that would become more evident as the 1870s unfolded. In fact, it would last until the 1890s, reaching a closure any time between 1893 and 1898, depending on the domestic circumstances of the country involved. During this period, it became increasingly more difficult to realise the value of commodities as markets declined and the average rate of economic growth fell. It was a situation that was emphasized by ongoing problems in the monetary systems that were meant to facilitate the circulation of money capital around the globe, problems that were embodied in what came to be known as the gold-silver question. Up until this time, industrialising countries had operated with one of three forms of currency: a monometallic gold standard; a monometallic silver standard; and a bimetallic standard, which was based on both silver and gold.

Things began to change, however, when, after its victory in the Franco-Prussian War (1870-71), Germany extracted a huge indemnity from France of £200,000,000, and then moved to join Britain on a gold standard. It was a situation that saw France, the U.S. and other industrialising countries follow Germany in adopting a gold standard throughout the 1870s. At the same time, other countries, such as Japan, which did not have the necessary access to gold or those, such as India, which were subject to imperial policies that determined that they did not move to a gold standard, remained for the most part on a silver standard. As a consequence, there emerged a huge divide in the world economy, with those countries in Western Europe and the United States forming a trading zone that was based on currencies that employed gold as a measure of its exchange value and those that remained on silver. So long as countries traded within the same monetary boundaries then the exchange of value operated within a neutral context. However, when they crossed such boundaries, they were confronted with a situation in which those currencies based on gold were continuing to rise in value and those based on silver were declining. For India which carried out most of its trade with gold based countries, especially Britain, the impact of this shift was profound. Certainly it was not prepared for the large scale changes that were taking place in the global silver market with the growing supply of demonetised silver as Germany and those that followed demonetised their silver coinage, and as new silver mines were opened up in north and south America. While silver did not flood the market to the extent anticipated, it remained a possibility and was a political threat that could be readily used by governments. In this way then, it became a destabilising factor in global trade, especially for India, which, in addition to its trading obligations, was compelled to meet so called home charges. in pounds rather than rupees. As the price of silver continued to fall, so too did the exchange value of the rupee, when measured against sterling,[44]and thus the home charges. It effectively meant that India by remaining on silver continued to export an ever increasing amount of the surplus generated to Britain. Such was the concern in India about this destabilising influence that a Select Committee was set up by the House of Commons in 1876 to consider and report on the causes of the depreciation in the price of silver and the effect of this depreciation on the exchange between India and England.[45]

Table 1

Price of Silver - Rate of Exchange: 1871-72 to 1892-93

	Price of Silver	**Rate of Exchange**
	d.	d.
1871-1872	60½	23 ⅛
1875-1876	56¾	21⅝
1879-1880	51¼	20
1883-1884	50½	19½

1887-1888	44⅝	18⅞
1890-1891	47 11/16	18⅛
1891-1892	45	16¾
1892-1893	39	15

Source: B.E. Dadachanji. *History of Indian Currency and Exchange*, 3rd enlarged ed. (Bombay: D.B. Taraporevala Sons & Co, 1934), p.15.

That silver did not flood the market in some sort of cataclysmic way was due in large part to the fact that the Germany, France and the US, having very large supplies of the metal, were reluctant to throw their silver onto the market and, in the process, devalue it. Instead the US and France sought to establish an alternative to the gold standard by arguing in different forums for a bimetallic standard that would be based on a ratio of 1 measurement of gold for 15 ½ of silver. As India was the world's greatest consumer of silver, the Government of India in Calcutta and the India Office in London tended to support this position, even though the government of the day in Britain, regardless of political persuasion, refused steadfastly to approve any move away from the silver standard for India. Highlighting as it did a significant difference between the colonial arm of the state in relation to India and the central body of the state in relation to the City in London, it proved to be a revealing contradiction in-so-far as the British imperial state was concerned.[46] Nonetheless, while the bimetallic cause was pursued by the U.S and France over four international conferences spread between 1868 and 1892, the question ultimately fizzled out in the late 1890s, after new goldfields were discovered in Australia and South Africa in the late 1880s and early 1890s.

For the eastern exchange banks, this particular shift in the world economy had profound implications, in that, while their balance sheets were rendered in pounds, a gold-based currency, their business was carried out largely in silver-based currencies, especially the rupee. In this context, the history of the Oriental Bank Corporation can be seen as consisting of two stages: from 1872, when it was at its peak, to 1884, when it was forced to close down; and from 1884, when it reopened as the New Oriental Bank Corporation, to 1892, when it went into liquidation and was unable to reconstitute itself. In the case of the first period, the Bank, which was continually threatened by the shifting value of silver in relation to gold, found it increasingly difficult to predict on a yearly, in some cases even a monthly, basis what the exchange value of the rupee would be; for not only did silver continue to decline over a very long period but it did so in a highly fluctuating way. For example, between 1872 and 1876, the price of silver dropped from 60d to 56 *11/16*d. During 1876, the price fluctuated from 54 *7/8*d in January to 51 *1/16* d in June to 56 *11/16*d in December. Similarly, whereas the average exchange rate for the rupee against the pound in 1872-73 ranged between 22 ½ d to 23 ¼d, by the beginning of 1876 it had fallen to 21 *1/3*d and then plummeted to 18 ½ d by June of that same year.[47] Indeed, by 1876, the exchange banks had come to recognize the gold-silver question as central to their interests and had begun to support the bimetallic cause. In the case of the Oriental Bank, it is fairly clear that by the late 1870s it was struggling at best and seemingly unable to reverse the trend. Certainly in the years that followed the global situation worsened, with the price of silver dropping from 56 ¾ d in 1875-76 to 50 ½d in 1883-84, and that of the rupee from 21 *5/8*d to 19 ½ d during the same period.[48] By 1881 it was a situation that saw India losing annually somewhere between £2,000,000 and £3,000,000 on remittances to Britain, owing to the decline in the price of silver.[49] The impact on the Oriental Bank Corporation was emphatic as its share price dropped from £48 ¾ to £7 ½ between 1874 and 1883; that is the capital value of the bank had fallen from £2,730,000 to £450,000. Its annual dividend had also dropped from 12% in 1874 to 11% in 1875, to 10% in 1876, to 5% in 1878, to 4% in 1879, a level at which it remained until it closed in 1884.[50]

As these shifts in the monetary system intensified between 1872 and 1884, the Oriental Bank Corporation faced increasing difficulties in managing and coordinating its extensive network of branches and agencies which linked Australia, North Asia, East Asia, South East Asia, South Asia, South Africa and beyond. In an article on the "Eastern Banks", it was argued that when business was conducted in so many branches, was widely scattered, and was subject to the sudden withdrawal of the amounts employed in local trade it was inevitably attended "with difficulty and perhaps with loss."[51] Certainly, by the early 1880s, for the Oriental Bank Corporation, which had a more extensive network of branches/agencies than any of the other eastern exchange banks,[52] the difficulties of administering their day to day operations appeared to be greater than that of the others banks. For example, in the case of each branch/agency, the Bank had to ensure that requirements in terms of cash, notes of issue, and bullion were met. At the same time, it had to provide the branch with a manager and staff capable of administering and enhancing the local branch's performance.[53] When this was replicated across the branches that made up the Oriental Bank Corporation's large network, in an economic climate that was prone to sharp shifts upwards and downwards, it is not surprising that there were problems. Yet, while it was the Oriental Bank Corporation's responsibility to ensure that funds deployed by the bank towards loans and securities could be covered, it would seem that the Bank did not necessarily operate according to its charter. For example, it is clear from Treasury records that, despite the requirements of the original charter (pp.12-13), the Bank report monthly on profits and losses at each branch/agency, first to the head office in London, but also to the Commissioners of the Treasury, the early records relating to this procedure had been lost, and that by the 1870s they had not been submitted.[54] In short, not only was the Bank remiss in failing to adhere to the regulations set down in the charter, but the imperial state, itself, through the treasury, had also failed to enforce this process. It was a clear sign that the Oriental Bank Corporation was not operating effectively as it had done.

Table 2

Year	**No. of Branches**
1852	9
1862	12
1872	16
1882	35
1892	24

The Economist 1852-1893

Indeed, this became more apparent in the wake of the Gledstanes failure in 1872, when it was confronted by a series of financial failures that made the day to day operations of the Bank more difficult to manage, especially as they were located over the globe.[55] For example, in 1873 and 1875, it had taken the agency for Chilean loans that had not been fully subscribed and the value of which fell as the price of silver continued to decline, the cost of which it had to meet.[56] Indeed, while Chile had operated on a bimetallic currency, owing to the scarcity of gold it was forced to employ silver as the basis of its currency.[57] However, it was the Oriental Bank Corporation's decision to sell these securities, after the War of the Pacific broke out in 1879 between Chile and Bolivia/Peru, over access to a disputed nitrate producing region, when the price of these bonds was at its lowest, that saw it lose heavily on this investment.[58] In all, the Bank lost £91,030 on the £318,806, which it had invested in Chilean Government Bonds.[59] Again, the Bank, which had a long-term interest in Ceylon, where it had had taken over the Bank of Ceylon in 1849, invested heavily in the coffee plantations there. In so doing, it initially benefited from an expanding industry that was underpinned by railway and irrigation programmes and that produced a commodity that was in heavy demand overseas. However, while the export value of this commodity continued to rise throughout the 1870s, the actual quantity exported declined. In the late 1860s, a fungus, commonly referred to as the coffee bug, emerged and during the 1870s systematically wiped out coffee plantations throughout the island. While some form of relief was gained from the substitution of tea and cinchona for coffee, investments in coffee had proved to be disastrous.[60] Certainly, the Oriental Bank Corporation's faith in coffee proved ill founded.[61] Similarly in Mauritius, where the Bank had invested heavily in the sugar industry, crops were hampered by borer infestation, where the insect imbedded itself in the plant; by ongoing outbreaks of malaria, which impacted severely on the labour force;[62] and by periodic cyclones which destroyed crops.[63] By the early 1870s, as the price declined and as the supply from elsewhere rose, the industry in Mauritius suffered and the Bank's investment began to look less attractive.[64] As one commentator noted, "It operated recklessly, it made extensions in most out of the way directions and sought to pile up business everywhere." The extent to which such an assessment was balanced remains problematic. In one case, the failure was a result of the unanticipated decline of silver and its consequent impact on the exchange value of silver-based currencies. In two other cases, natural disaster prevailed by way of disease and weather.

Regardless of the cause, the outcome of such losses saw the Oriental Bank Corporation struggling by the end of the 1870s. When the Directors handed down their twenty-eighth report on 17 April 1879, they stated that , after defraying all current expenses and deducting sums written off for the first half of the year (1878), the earnings amounted to £198,727 out of which a dividend of 10% was to be paid to shareholders, with £123,727 left as unappropriated. Having noted that, they went on to point out that, owing to the depressed condition of trade during the previous six months, the bank had sustained "very serious losses," which, providing for doubtful debts, including a large sum from Australia, had exceeded the unappropriated earnings by £120,130. In making this calculation, they had attempted to take into account the existing depreciation of their public securities held in London and their different branches. In so doing, they had assumed an exchange rate of 20d, when, in fact, the rate dropped below that in 1880. They also indicated that they had made provision for the return of all funds invested in the east at the exchange of the day, except for that portion of the bank's capital required for each branch's local use.

In all, in 1878 and 1879, the Oriental Bank Corporation wrote off a reserve of £500,000 to cover the depreciation of silver securities (£185,567), to liquidate bad debts and to write down the value of a number of properties.[65] Between 1878 and 1883, its deposits dropped by nearly 50% from £12,000,000 to £6,000,000 and exchange bills from £6,000,000 to £1,800,000. At the same time, in 1879, in an endeavour to rationalise its activities, it handed over its banking business in South Africa to the newly constituted Bank of Africa.[66] As a result, by the end of 1879, the market value of its £25 share had dropped to £20 from a high of £50. It was according to one voice a year of exceptional trial and difficulty, so much so that it severely drained its reserve fund to meet bad debts and it did not deliver a dividend. By 1880, its reserve fund stood at a mere £13,672, [67] compared to a previous high of £450,000 in 1872 and its annual dividend at 4% compared to a previous high of 19%.[68]

Another set back came in late 1881, when in the wake of the International Monetary Conference which had been held in Paris, where there was "reason for believing that an understanding might be established between the states which had taken part in the conference", the exchange banks invested in rupee paper. Of particular interest to the Banks were declarations by the Indian government and by the Bank of England that seemed to suggest support from the state for addressing the silver question.[69] On the basis of these observations, they entertained the strong possibility that the position of the rupee would improve and invested heavily in rupee paper in India. For the Oriental Bank Corporation, which bought silver and bonds payable in silver, it proved to be a mistake.[70] Indeed, when the exchange value of silver and the rupee continued to fall, the exchange banks lost heavily on their investment or what one article described as, "a vast amount of gambling." As the same article pointed out, "a bank may rightly enough hold investments, but this buying and selling of the rupee paper, is a great mistake, and the sooner it is discontinued the better." Yet, even holding investments was in itself hardly a safe option. In 1883, having, only a few months earlier, claimed that the advances that the Oriental Bank Corporation had made on properties in Ceylon might be expected to be paid and that the same sort of securities in Mauritius would be realised, these assets, in the wake of a fall in prices for coffee, in case of the former, and sugar in the case of the latter,[71] along with some mortgages in South Africa, looked as though they would cost the Bank £750,000. Accentuating the seriousness of the situation was the news that, in addition to the £185,000 written off in 1878 to meet losses resulting from the fall in the price of silver, a further £800,000 had been lost for the same reason.[72] By 1884, in fact, the £25 share had fallen to £7, which saw the directors impose a number of cost cutting exercises, pay no dividend, and move to reduce the nominal capital of £1,500,000 by half, so that the remainder would be employed to meet depreciation costs of £180,000 of fixed capital abroad and £570,000 as a special provision against eventual losses on unproductive assets.[73] It was a critical time, not only for the Bank but also its clientele. When the above information was conveyed to Australia, where business in New South Wales and Victoria was both considerable and valuable, it caused a run on the Bank's branches. Again, in March April 1884, when unsubstantiated, vague rumours regarding the Oriental Bank Corporation circulated, the price of the bank's shares fell.[74] In part, decisions relating to the Bank began to get out of control.

Contributing to this loss of control was the telegraphic transfer of information. Indeed, while theoretically it had the capacity to address problems related to decision-making in terms of the limiting of space and the shortening of time, it had a "tendency to run off the book more quickly than [it] used to do."[75] Certainly, it could, as it had done, facilitate the rapid circulation of rumours. At the same time, it enabled the state to intervene in a way that was not previously possible. For example, in the days leading up to the closure of the Oriental Bank Corporation, the Treasury employed telegraphic communications to address problems arising out of the Bank's activities across those colonies, where its branches were located. Between May 3 and 16 1884, thirty telegrams were exchanged between the Treasury and the Governors of Ceylon, the Straits Settlement and Hongkong to assess and limit the impact of the collapse of the Oriental Bank Corporation on their respective colonies. In the case of Ceylon, for example, the government was permitted to guarantee 3,500,000 rupees in order to avert what they saw as potentially disastrous results. Subsequently, the Bank's operations were suspended.[76] Yet, the Bank was by no means dead. Later that same year it was able to reopen as the New Oriental Bank Corporation.

According to its prospectus, the new bank would continue the banking, exchange, deposit, remittance and agency business that had been the hallmark of the Oriental Bank Corporation. Again, employees would be carefully chosen and expenditure would be adjusted on the basis of the strictest economy consistent with efficiency. In this context, local boards would be set up subject to the control of the board of directors in London. While it would operate with branches in the British colonies, India Japan and China, with the head office in London, agencies would also be opened in those places that proved profitable.[77] Given that it was operating with limited capital and a damaged reputation, the New Oriental Bank was clearly not in a position to replicate the practices of the old bank. Nonetheless, it was able to pick up a good deal of business of the old bank, so that, for example, its deposits grew from £1,206,906 in 1884 to £2,798,650 in 1886.[78] Again, it sought secure banking business such as its negotiations with the Government of India, between 1887 and 1890, to assume responsibility for the government's treasury business at Aden.[79] In other ways, however, the New Oriental Bank Corporation continued to operate as the old bank had done in the 1870s and early 1880s. It retained and purchased expensive quarters in London and elsewhere; and it extended what was a fragile network of offices by opening branches and agencies in Paris, Madagascar, San Francisco, Seychelles, and Zanzibar. Palatial premises built in the Seychelles and Madagascar saw expressions of concern emerge from shareholders.[80]

In undertaking these activities, the new bank struggled to survive, especially as the exchange value of the rupee continued to slide, from 19 *1/2*d in 1884 to 15d in 1892. In spite of this continued slide in the value of silver, the New Oriental Bank Corporation's behaviour seemed more risk oriented than prior to 1884. It made large investments in dubious securities and extended large advances to customers, without adequate guarantees. By the late 1880s, in fact, the directors had approved investments, totalling £1,050,771, in nine companies, in which five directors of the New Oriental Bank Corporation held directorships in one or more of these companies. For instance, in 1888, the New Oriental Bank Corporation invested heavily in the Gatling Arms and Ammunition Company, which was established with share capital of £800,000 that was subsequently reduced to £371,270. By September 1890, this company had gone into liquidation heavily indebted to the Bank.[81] Indeed, one of the issues raised at the extraordinary general meeting held in June 1892 was the discovery that an advance of £17,000 had been made to that company by the Bank just before it went into liquidation. At that same meeting, further information was sought as to how the manager of the Melbourne branch had made an advance of £80,000 without security. Of equal concern were advances of £30,000 made to chetties (indigenous bankers) in Singapore. As one commentator noted, "no-one would have imagined it possible, or, at all events, probable that the directors of the old bank would have fallen into the same errors and made the same mistakes which brought disaster to the old bank."[82] But in this instance, it was more than mismanagement; it also included dubious negotiations and deals that led to fraud, when four of its directors were accused of misappropriating £70,000 from the Bank by means of loans.[83]

In all then, when the New Oriental Bank Corporation's losses were assessed in June 1893, £1,006,554 was attributable to the Head Office in London, and £776,800 to the branches. Of these Singapore recorded a £240,000 loss, Australia £167,000, Japan £138, Mauritius £94, India £65,000, and China £46,000. When the losses of the head office and the key branches were aggregated with the loss through exchange (£346,000) and the reserve funds (£632,291) were deducted, the total liability was £1,497,291, giving the creditors not more than 12/- in the pound.[84] What was revealing in this instance was that while losses that were generated at the branches in Ceylon and Chile had significantly contributed to the downfall of the Oriental Bank Corporation in 1884, the source of the problem on the latter occasion was to be found in Singapore and the Straits, where trade had taken a downturn and fraudulent practices had been in evidence; in Australia, where there had been a collapse of credit; and in China and Japan, where trade was depressed and the price of silver had fallen in anticipation that the US would repeal the Sherman Act of 1890, whereby the US government had subsidised the production of silver by means of annual official purchases.[85] Significantly, while India had to contend with the failure of the monsoon,[86] it appeared to be performing much better than most other branches elsewhere in the Indian and Pacific Oceans. Indeed, whereas in India deposits were on the rise, the other regions were losing their deposits.[87] Finally, on 8 June 1892 the New Oriental Bank Corporation closed its doors. Unlike its predecessor, the Oriental Bank Corporation, it did not reopen at a later date, even though it was suggested, somewhat ironically, at a meeting of the creditors on 20 July 1892, that promoters could perhaps form a new bank out of the ruins of the New Oriental Bank Corporation and title it the "Newer" Oriental Bank Corporation.[88]

CONCLUSION

The answer to the question that was posed at the beginning of this paper depends of course on how one reads history. In a broad sense, the rise and fall of the Oriental Bank was clearly a product of capitalist development in the second half of the nineteenth century, reflecting as it did the uneven nature of such development. From the early 1850s through to the early 1870s, it succeeded in maximising the opportunities that were created during the long boom of the third quarter of the 19th century. More than any other eastern exchange bank, it utilised the opportunities that arose as a result of the expansion of trade - driven as it was by technological change in terms of transport and information - by extending its network of branches and agencies to incorporate significant parts of the Indian and Pacific Ocean regions. Again, it underlined the changes that had occurred in banking and exchange, particularly in relation to Britain and India, in the expanding world economy. Above all, it managed to avoid the pitfalls of the short term industrial cycle, so much so that it was generally recognised as not only the largest exchange bank operating in the east, but also the best managed.

By way of contrast, what followed over the next twenty years was almost a reversal of this role. Seemingly, unable to cope with the long slump that followed, the Bank went into decline until it closed down in 1884. Reconstituted a short while later, as the New Oriental Bank Corporation, it appeared to make a recovery on the remains of the old bank, before collapsing for a final time in 1892. In reviewing the Bank's performance over this period, there are certain things that stand out. Among, others, there was the investment in the production of commodities that were unable to realise their value on the market. Both in the case of the production of coffee in Ceylon and sugar in Mauritius, the Bank found itself in a position, where it had invested in produce well beyond the value of the crops in sight. It could be argued, of course, that the Bank had long term investments in both places that dated back to its foundation as an exchange bank; that such investments had provided the basis of its growth in the 1850s and 1860s; and that it would have been difficult to ascertain the impact of the gold silver question and the whims of nature, such as disease and cyclones. Certainly this argument has some validity up until the mid-1870s, but thereafter, as the position became clearer, little appears to have been done to manage these changes. Similarly, in the case of the Chilean bonds purchased in 1873 and 1875, the earlier investment, as opposed to the latter, seemed more logical in the sense that the silver/gold question had yet to make itself felt. In 1875, however, the Bank made an error of judgment that was subsequently compounded when it sold its Chilean bonds in 1879, when their price was at its lowest level. Accentuating this situation was the Bank's insistence on delivering a high annual dividend, which up until 1877 was rarely less than 10%, when, in the face of its accumulated debts, it was not in a position to do so. Similarly, given the downturn in trade and the emerging monetary crisis, the Bank's decision to continue to expand, seemed unwise, especially, when, according to the *Bankers' Magazine*, it was losing its hold on India and China, in seeking business in Australia and later South Africa.[89] Moreover, in its final incarnation as the New Oriental Bank Corporation between 1884 and 1892, the Bank appeared to be nothing less than reckless in opening at least five new branches. Indeed, as this period came to a close, the difficulty of drawing up a final financial statement was noted, in-so-far as the head office had yet to receive accounts from all branches, owing to the long distances between their locations and the head office.[90] In the same way, the directors had adopted a policy that was anything but prudent in advocating a bimetallic position in relation to the problem of currency, a position which promised much more than it was capable of delivering and which, in the case of the Bank's directors, was employed to speculate on the possibility of the price of silver rising in the short term in the early 1880s, when in fact it fell. Indeed, between 1878 and 1883, when it should have been addressing ways of countering what was by this time a clear downward trend in the price of silver and the exchange value of the Indian rupee, the bank was operating on the assumption that the price would rebound.[91] If the years from 1872 to 1884 were marked by a series of bad management decisions that increasingly made the Oriental Bank Corporation untenable, those from 1884 to 1892 moved into the sphere of fraudulent behaviour. Indeed, by the late 1880s and early 1890s, highly suspect loans to companies that had very close ties to the directors, and loans to the directors themselves, saw the New Oriental Bank Corporation lose all credibility.

As the *Economist* noted in July 1892:

> There is no doubt that the circumstances of the times through which the Eastern Banks have been passing have been especially conducive to fraud. During the period of inflation which preceded the recent collapse, the temptation to enter into dangerous speculation must have proved in many cases irresistible, and when the crash came it wanted but a short step to enter into fraudulent practices in order to cover or to hide losses. Nevertheless, although fraud may have been fostered by the circumstances of the times, there is no doubt that much of it could have been prevented had their managerial control been more efficient. [92]

Still, while the New Oriental Bank Corporation was the only eastern exchange bank to close down completely in 1892, most of the others came close to doing so at some point during the long slump. Moreover, if the Oriental Bank lacked the management skills of the other exchange banks, it must be emphasized that it was over twice the size of the next largest bank and it had to coordinate and manage a much larger network of branches and agencies. Clearly, a detailed analysis of the Bank's management procedures and a study of the extent to which the telegraphic system helped or hindered its global banking network would provide a more complete answer than we are able to give in this paper. Yet, ultimately, it would be surprising, if it were not the shift in the world economy between the early 1870s and the early 1890s, especially in relation to the gold silver question, that determined the final outcome. Certainly, the last twenty years of the bank's existence was underpinned by the continuous loss of money through exchange, directly and indirectly.

Appendix 1

Oriental Bank Corporation/New Oriental Bank Corporation Branches: 1852 – 1892

Bombay	1852
London	1852
Calcutta	1852
China	1852
Canton	1852
Shanghai	1852
Colombo	1852
Madras	1852
Singapore	1852
London	1862
Bombay	1862
Calcutta	1862
Madras	1862
Ceylon	1862
Hong Kong	1862
Singapore	1862
Mauritius	1862
Melbourne	1862
Sydney	1862
Auckland (Closed)	1862
Wellington (Closed)	1862
London	1872
Bombay	1872
Calcutta	1872
Ceylon	1872
Colombo	1872
Foochow	1872
Hong Kong	1872
Kandy	1872
Madras	1872
Mauritius	1872
Melbourne	1872
Point-de-Galle	1872
Shanghai	1872
Singapore	1872
Sydney	1872
Yokohama	1872
London	1882
Bombay	1882
Calcutta	1882
Colombo	1882
Ceylon	1882
Hong Kong	1882

Madras	1882
Mauritius	1882
Melbourne	1882
Point-de-Galle	1882
Shanghai	1882
Singapore	1882
Sydney	1882
Yokohama	1882
Kobe	1882
London	1892
Edinburgh	1892
Dundee	1892
Aden	1892
Bombay	1892
Calcutta	1892
Colombo	1892
Kandy	1892
Jaffra	1892
Badulla	1892
Newera Ellia	1892
Hong Kong	1892
Kobo (Hiogo)	1892
Tamatave (Madagascar)	1892
Antananarivo (Madagascar)	1892
Madras	1892
Mahe (Seychelles)	1892
Port Louis (Mauritius)	1892
Melbourne	1892
Shanghai	1892
Singapore	1892
Sydney	1892
Zanzibar	1892
Yokohama	1892
Paris	1892

Source: *Bankers' Magazine*, *Economist*.

Notes:

[1] This paper was presented to the 15th Biennial Conference of the Asian Studies Association of Australia in Canberra 29 June-2 July 2004. It has been peer-reviewed and appears in the Conference Proceedings website by permission of the author who retains copyright. The paper may be downloaded for fair use under the copyright Act (1954), its later amendments and other relevant legislation. Research for this paper was carried out with the support of an Australian Research Council (ARC) Discovery Grant.

[2] For an outline of the "Long Wave" theory see Ernest Mandel, *Late Capitalism*, (London: New Left Books, 1972), and his *Long Waves of Capitalist Development*, (Cambridge: Cambridge University Press, 1980).

[3] See Chart 1 which outlines the rate of growth of world exports for both the United Kingdom (hereafter U.K.) and India between 1850 and 1897. It can be seen from an examination of this chart that the rate of growth in the UK increased steadily between 1850 and 1874. Thereafter until 1896, it remained relatively constant. In India, the rate of growth increased between 1850 and 1866, after which it declined for two years, before increasing, yet again, until 1873. After that it remained relatively static through until the late 1890s.

[4] "Tables of External Commerce of Calcutta from 1785 until 1830", Commerce Collection, Oriental and India Office Oriental Records (Hereafter OIOR), British Library (Hereafter BL), MSS Eur. G 33.

[5] "State of Exchanges With India", *Bankers' Magazine*, March 1848, pp.153-56.

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[7] "The East India Company's Hypothecation System", *Bankers' Magazine*, December 1852, pp.646-49.

[8] "Communication with Mr Mills at India House, 4 May 1849", Chapman Collection, OIOR, Mss Eur E 234/21

[9] "The East India Company's Hypothecation System", *Bankers' Magazine*, December 1852, pp.646-49.

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[12] "The Oriental Bank", *Bankers' Magazine*, October 1851, p.615.

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[21] "Chatered Mercantile Bank of India, London and China", *Bankers' Magazine*, July 1864, p.557.

[22] "Agra and United Services Bank, Ltd", *Bankers' Magazine*, April 1864, p.390.

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[25] "Chartered Bank of India, Australia and China", *Bankers' Magazine*, May 1865, pp628-31.

[26] "Chartered Mercantile Bank of India, London and China", *Bankers' Magazine*, June 1865, pp. 767-70.

[27] "Chartered Bank of India, Australia and China", *Bankers' Magazine*, November 1865, pp.1277-79.

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[29] "History of the Crisis", *Bankers' Magazine*, June 1866, p.653.

[30] "Agra and Masterman's Bank Limited', *Bankers' Magazine*, April 1865, pp.390-91.

[31] "The Suspension of the Agra and Masterman's Bank", *Bankers' Magazine*, July 1866, 789-92

[32] For an overview of the impact of the telegraphic system in the nineteenth century, see Jeffrey Kieve, *The Electric Telegraph: A Social and Economic History*, (Newton abbot Devon: David and Charles (Holding) Ltd, 1973).

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[43] "Oriental Bank Corporation", *Bankers' Magazine*, June 1876, p.454.
[44] See Table 1.
[45] *Report From The Select Committee On Depreciation Of Silver*, London: House of Commons, 1876.
[46] For its application to India see John McGuire, "India, Britain, Precious Metals and the World economy: The Role of the State between 1973 and 1893", in John McGuire, Patrick Bertola and Peter Reeves (eds), *Evolution of the World Economy, Precious Metals and India*, (New Delhi: Oxford University Press, 2001), pp.185-190.
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