

SOME NOTES ON THE LIFE AND WORKS OF SIR EDWARD HOLDEN†

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I

Sir Edward Hopkinson Holden's distinguished career as one of the greatest bankers in English monetary and banking history commenced when he became the managing director of the Midland Bank¹ in 1898. His activities in the banking world consisted of three, equally important, parts. At first he took the lead in innovating the branch-controlling organization of joint stock banks which had become greater after the peak of amalgamation movement in banking. Secondly, he caused the Midland Bank to initiate foreign exchange business which had been monopolized by merchant bankers in the nineteenth century. Holden himself became the leader of English joint stock bankers through getting the Midland Bank to play such a precursory role. Thirdly, his contributions to the British monetary policy should be noted. He continued to criticize the reserve policy of the Bank of England and to campaign for increasing the gold reserve of joint stock banks, while he pointed out several defects of the Peel's Act and proposed a more flexible note issue system in emergency. The following discussions are to examine more in detail the historical significance of Holden's works summarised above and to suggest some points helpful for understanding monetary aspects of the British economy before the First World War.

II

In the amalgamation movement in English banking it was a common practice of strong joint stock banks to offer the terms of amalgamation which gave a bonus to the shareholders of the bank absorbed.² The amalgamation between the Midland Bank and the City Bank was not an exceptional case in this respect.³ But it meant something more for the develop-

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¹ In this paper the term "Midland Bank" is to be regarded as a generic one. Therefore, the fact that the Bank had often changed its name will be ignored.

² Cf. Joseph Sykes, *The Amalgamation Movement in English Banking, 1825-1924*, London, 1926, PART I.

³ Cf. Edwin Green, *The Making of a Modern Banking Group—A History of the Midland Bank since 1900*, London, 1979, p. 11.

ment of branch banking in England, for a nationwide branch-controlling organization was founded under the leadership of E. H. Holden who had been elected the managing director of the amalgamated bank. According to the *Minutes of Proceedings of the Board of Directors*:

“Mr. E. H. Holden to be appointed Managing Director of the amalgamted Bank on the same terms with the same authority as at present. The Assistant General Managers of this Bank and the General Managers of the City Bank to be Joint General Managers of the amalgamated Bank but under the supreme authority of the Managing Director.”⁴

Consequently, J. M. Madders, S. B. Murray and D. G. H. Pollock, a Joint General Manager of the City Bank, occupied the position of Joint General Managers of the new Bank.

A few explanations should be added to their roles in bank management. It is a well-known fact that in 1890s the Midland Bank obtained footings in northern counties including Lancashire as well as in London by successive absorptions. These two areas and the Midlands where it was most deeply rooted were of central importance for the innovation of branch management of the Midland Bank. *The Bankers' Magazine* reported that:

“The London City and Midland, with its numerous offices, must pursue some such policy, and for the purposes of organization the area covered by the bank is divided into three great divisions, the London, the Northern, and the Midland and Southern, over each of which a joint general manager presides. These divisions are again split into districts, each of which has a superintendent of branches, and in addition there are about a score of inspectors of branches under the control of the chief inspector. The joint general managers, the superintendents of branches and the chief inspector all have their seats at the head office, where they receive the returns from their various departments, and keep a close watch over their working. These heads of departments make their reports to the managing director, who controls the practical working of the bank, and he in his turn reports to the board of directors and consult with them.”⁵

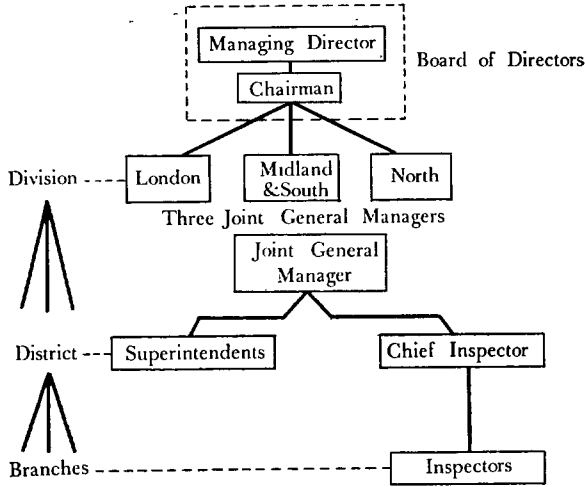
The branch-controlling organization of the Midland Bank in 1900s and the system of its “executive control” in 1920s can be illustrated by Chart I(A) and Chart I(B) respectively. A comparison of these Charts shows that the nationwide system of branch management of the Midland Bank emerged in its original form soon after the absorption of the City Bank. The establishment of such a branch-controlling system of the Midland Bank was an epoch-making innovation in English joint stock banking history. It realized more extensively the idea of Thomas Joplin, the creator of English joint stock bank organization, who devised a bank “constitution” with “local boards” as a central constituent, the purpose of which was to diminish the risk of shareholders owing to the absence of limited liability.⁶ Another important character of the organization of the Midland Bank was that a group

⁴ *Minute Book 18*, 1898 to 1899, London City and Midland Bank.

⁵ *The Bankers' Magazine*, vol. 76, 1903, p. 12.

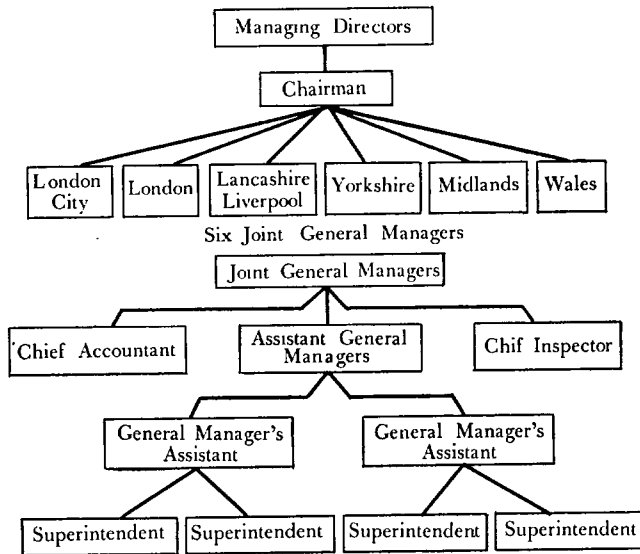
⁶ Cf. Thomas Joplin, *An Essay on the General Principles and Present Practice of Banking, in England and Scotland: with Observations upon the Justice and Policy of an Immediate Alteration in the Charter of the Bank*

CHART I(A)



Source: *Bankers' Magazine*, vol. 76, 1903, pp. 12-3.

CHART I(B)



Source: L. A. Harr, *Branch Banking in England*, 1929, p. 84.

of managers formed a principal part of it and the managing director played a decisive role in bank management. It can be said that this was, more or less, a fundamental structure of big joint stock banks in England and was in a marked contrast to the contemporary German system. In German joint stock banks the board of standing auditors (*Der Aufsichtsrat*) occupied a dominant position. It had broad powers to work out a basic strategy of banks and to appoint all of directors among whom the responsibilities of controlling over various banking activities—especially railway finance, foreign business and financing a large-scale industrial enterprise—were divided.⁷ In short, the organization of bank management in Germany was a system of “division of labour” between auditors and directors.

The second, equally important, aspect of Holden’s activities as an entrepreneur had to do with foreign exchange business. Table 1 shows that the number of correspondents abroad of the Midland Bank increased sharply from the end of 1890s. This tendency was accompanied by the establishment of its Foreign Exchange Department in 1905. At the same time two experts on foreign exchange business—H. Van Beek and D. A. Miller—entered the Bank. There are many reasons to be considered why the Midland Bank took the lead in launching into the new business. It is certain that after the South African War “competition of the corporations” had raised the money rate in the provinces to a higher level “irrespective of the Bank rate” and had a depressive effect on the provincial business of the Midland Bank.⁸ And “the fixed rate of the Post Office Savings Banks” could have exercised the same influence.⁹ Thus the Midland Bank seemed to be forced to expand its London business including foreign exchange business as an alternative. However, Holden appeared to suggest a more general, but decisive motive that drove the Bank to go into an international sphere of banking business. In his letter to Mr. Dale dated 19 January 1905, he expressed his opinion about the existing conditions of international banking:

“... the international finance of this country is more in the hands of the Germans, and particularly of the German Jews, than in the hands of the English, and you will find very few English Bankers who are acquainted with it. The same is the case in America. When I was over there for two months in the fall of last year, I visited a great many of the principal cities, and the principal Bankers. Most of the Banks had Departments for Foreign Exchange, but all of them were presided over by German Jews. This result is brought about largely by the method of teaching in the German Universities, he is well up not only in the science, but also in the practical working of the Exchanges, in a much better degree than we see in our country.”¹⁰

Holden looked at the matter in the same light in his letter to W. J. Ashley, the famous economic historian, dated 27 January 1905. His opinion expressed in these letters seemed to

of England, and the Measures to be pursued in order to effect it, 4th ed., 1823, pp. 56–8; *The Circular to Bankers*, no. 20, 13 February 1829, p. 238; and Hartley Withers, *National Provincial Bank 1833 to 1933*, London, 1933, pp. 17–20. Of course, the Midland Bank had not “local boards.” But it is certain that it realized a nationwide system of branch management and in such a sense it succeeded Joplin’s idea.

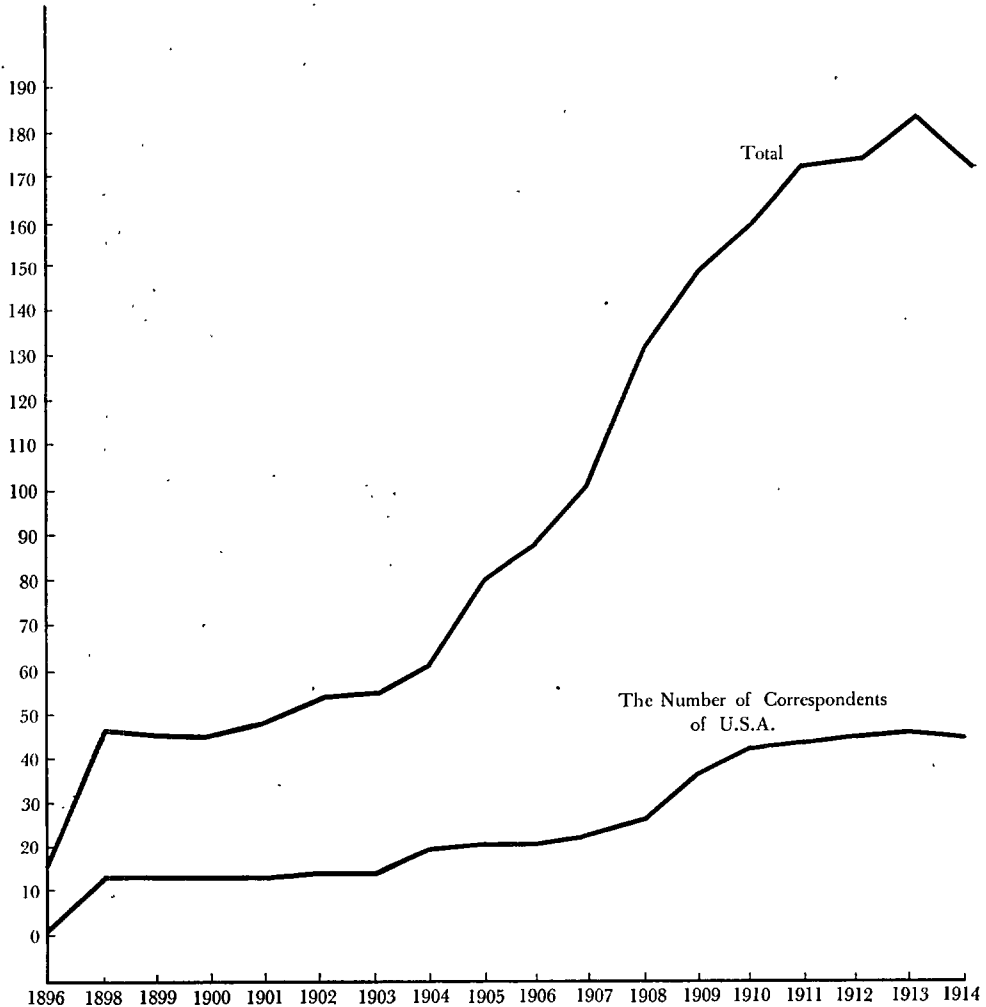
⁷ Cf. Hjalmar Schacht, *Einrichtung, Betrieb und volkswirtschaftliche Bedeutung der Grossbanken*, Hannover, 1912, SS. 16–8.

⁸ *The Bankers’ Magazine*, vol. 79, 1905, p. 462.

⁹ *Ibid*, vol. 87, 1909, pp. 469–70.

¹⁰ *Holden’s Letter*, 19 January 1905.

TABLE 1. THE NUMBER OF COLONIAL & FOREIGN CORRESPONDENTS (1896-1914)



Source: *Annual Reports of the Directors of the Midland Bank (1896-1914)*.

reflect his desire to take the place of Jewish merchant bankers who had took the lead in foreign exchange business and controlled the "Inner Circle"¹¹ of the City. But, ironically enough, when the Midland Bank and other big joint stock banks in London made preparations for setting out the new business, the prestige of pound sterling as the "key currency" of the international gold standard system began to fall into decay increasingly. In 1900s the German mark raised its international standing as a "reserve currency" and Germany made up its own currency area comprised of Chile, Austria and others, while in England the relatively and absolutely low level of its gold reserve caused uneasiness, especially after

¹¹ Marcello de Cecco, *Money and Empire—The International Gold Standard 1890-1914*, Oxford, 1974, p. 133.

the monetary crisis of the United States in 1907.¹² One of the last and most difficult tasks of E. H. Holden was to submit a proposal for the maintenance and reconstruction of the gold standard system which had fallen into a functional disorder.

III

On 3 November 1913 Holden delivered an address to the students in the Birmingham University Class on the Theory and Practice of Banking. According to *The Times* which reported its contents in detail, he emphasized the necessity for the expansion of gold reserves of individual joint stock banks as follows:

“... he went on to describe the general principles of banking, using as an illustration an isosceles triangle, the left side of the triangle representing credit balances. So long as confidence existed, he said, a banker might increase his loans *ad libitum*, which meant that the right side of the triangle might in theory be elongated indefinitely, but they all knew that confidence was liable to be shaken, and therefore the banker must be prepared to meet any want of confidence which might arise, and as credit balances were repayable on demand or at short notice, he must protect himself by keeping such liquid resources as he considered necessary to protect the left side of the triangle. These liquid resources were represented by the base of the triangle, which must increase in a certain ratio to the increase of the two sides. Should a crisis come, in all probability customers might as a last resource want to draw out gold. Therefore it was of the greatest importance that every banker should hold a certain proportion of gold.”¹³

In the lecture he lucidly explained that the existing British banking system had depended ultimately on gold reserve and that the Bank of England could be no longer “the base of the triangle.” Clearly Holden believed that the English system of gold reserve—or what Walter Bagehot had called “one reserve system”¹⁴—had ceased to work effectively. Holden pointed out two reasons for the failure of it. The first was that the Bank of England wished “to take a profit” as a commercial bank.¹⁵ Consequently, it had devoted itself exclusively to the expansion of fiduciary issue without increasing its gold reserve. The second was that:

“The multiplication of Branch Banks has caused cheques to displace Bank of England Notes, and as gold is purchased by means of the Notes, it naturally causes a diminution of the gold.”¹⁶

But Holden could have added the third reason, that is, an efflux of a great quantity of gold from England. Under the conditions of international finance in 1900s such a gold shortage could not be fully offset by a reciprocal influx of gold. In other words, the mechanism of these international gold movements began to be paralysed at the turn of the century.

¹² Cf. *Ibid.*, pp. 108–10, and Peter H. Lindert, *Key Currencies and Gold 1900–1913*, New Jersey, 1969, p. 3 (note 3) and p. 22 (Table 3).

¹³ *The Times*, 4 November 1913, p. 17.

¹⁴ Walter Bagehot, *Lombard Street—A Description of the Money Market*, new ed., London, 1915, p. 67.

¹⁵ *Holden's Letter to Kountze*, 1 April 1909.

¹⁶ *Ibid.*

Therefore, unless the Bank of England could devise a countermove such as borrowings from the Bank of France or earmark of London balances of Japan etc., it might be forced to suspend specie payments.¹⁷ Nevertheless Holden seemed to expect these difficulties could be got over by joint stock banks' cooperated efforts to pile up their own gold reserves, for they were not legally obliged to accept for specie payments. His opinions about this problem were expressed plainly in his evidence in the Cunliffe Committee. He answered the Chairman's question: "Who is to pay the note—the currency note or the Bank note—in gold?" by saying that:

"If the Bank issues a bank note the Bank must pay it in gold. If the Government issues a currency note they must be reasonable for paying it in gold, and I have no doubt that they will be attacked for their gold, just as the Bank of England has been attacked for its gold. You cannot have currency notes playing an important part in our trade in the same way as the bank note without notes being brought up and attacking the gold. Now the gold in the Joint Stock Banks is not attackable. Gold in the Bank's reserve is like being in the full stream of the River Thames, amenable to the rise and fall of the tide; but gold in the hands of the Joint Stock Banks is unassailable—it is like being in a back-water of the Thames; you cannot get it out, because the Bankers can pay you in the note."¹⁸

Just before the First World War the situation was changed as Holden had expected. It can be proved by the figures submitted in the Clearing Bankers' Gold Reserves Committee which was set in 1907 and called again in 1913 in response to an earnest request from the Governor of the Bank of England. In 1913 the Gold/Deposits ratio of Clearing Banks was higher than that of Non-Clearing Banks (Table 2). Moreover, gold holdings in 46 London & Country Banks in the same year could be compared favorably with those of the Bank of England (Table 3).

Another proposal for the maintenance of gold standard system in emergency such as in war or economic crisis was advanced by Holden in the eighth meeting of the Committee. He argued as follows:

"In the opinion of the best economists, a currency based on gold and approved bills of exchange is the best kind of currency because inflation would be prevented inasmuch as the notes would have to be retired to meet the bills as they became due. The currency would thus be much more liquid on the basis of bills than on the base of securities, and there would be no depreciation of the latter to provide for. To prevent inflation by the issue of emergency currency of this kind, a tax of 5 per cent. placed on the notes issued against bills would cause the former to be redeemed immediately the crisis was at an end."¹⁹

This "emergency currency" plan, which partially accepted doctrines of the Banking School,²⁰

¹⁷ Cf. Lindert, *op. cit.*, p. 32, de Cecco, *op. cit.*, pp. 123-4.

¹⁸ *Minutes of Evidence Taken before the Committee on Currency and Foreign Exchanges at the Ministry of Reconstruction*, April 8th 1918, Evidence of SIR EDWARD H. HOLDEN, BART., p. 6.

¹⁹ *Minutes of Proceedings of the 8th Meeting of Clearing Bankers' Gold Reserves Committee*, 22 July 1914.

²⁰ Cf. E. Victor Morgan, *The Theory and Practice of Central Banking 1797-1913*, 2nd impression, London, 1965, pp. 130-1.

TABLE 2. GOLD HELD BY BANKS

	(Excluding the Bank of England)	
	May 28th, 1913	May 14th, 1914
(I) Deposits	£ 805,385,436 (46 Banks)	£ 830,830,428 (42 Banks)
(II) Gold	£ 34,824,145	£ 33,588,072
(III) Percentage of (II) to (I):		
(1) Highest	8.24	6.34
(2) Lowest	0.25	0.33
(3) Average:		
46 or 42 Banks	4.30	4.04
Clearing Banks	4.85	4.69
Non-Clearing Banks	2.50	1.92

Source: *Minutes of Proceedings of the 7th Meeting of Clearing Bankers' Gold Reserves Committee*, 14 May, 1914.

TABLE 3. GOLD HELD BY BANKS IN THE U.K.

	(Including the Bank of England)
	Amount (£)
Gold Held by 46 Banks, May 28th, 1913 (London & County Banks)	34,824,145
Bank of England: (same date)	
Issue Department	36,285,935
Banking Department (Including Subsidiary Coin)	1,429,692
Scotch Issuing Banks, May 24th, 1913	5,916,491
Irish Issuing Banks, May 24th, 1913	4,199,891
Total	82,656,154

Source: *Minutes of Proceedings of the 3rd Meeting of Clearing Bankers' Gold Reserves Committee*, 18 June, 1913.

became a model of the currency notes provided by the Currency and Bank Notes Act, and yet, as Holden pointed out, it was an imitation of the German Bank Act of 1909. In fact, in the lectures delivered in London School of Economics and Political Science in 1913 Leopold Joseph, a manager of the Swiss Bankverein, said, "As cover for the notes in circulation, the Reichsbank must hold at least one-third in German gold coins, notes issued by the Government (*Reichskassenscheine*), bar gold or foreign gold coins, and the balance, *i.e.*, two-thirds, in discounted bills or cheques of a specific description."²¹ The same regulations as well as an "interest tax" of 5 per cent. to check the excessive issue of notes were the main points in the Holden's proposal. But the functions of the currency notes became rather different from what Holden expected, especially after the Currency Note Redemption account had been set up on 20 August 1913. Now the Government became able to issue the notes "indefinitely" through transferring its regular balance at the Bank of England to the Currency Note Redemption account.²²

²¹ *The Evolution of German Banking*, Four Lectures delivered by Leopold Joseph, London, 1913, p. 69.

²² Cf. H. F. Fraser, *Great Britain and the Gold Standard*, London, 1933, pp. 33-5.

IV

Edward Holden's activities and works as a joint stock banker should be worth while to be restated in more extensive historical perspective. It is a well-known fact that the system of joint stock banking in England was very different from those of France and Germany in the nineteenth century. In the latter countries the formation of joint stock banks was motivated by the social-minded ideology called *saint-simonisme* which emphasized the necessity of institutions for long-term industrial finance,²³ while in England the image of a joint stock bank concentrating national savings and advancing them in short term was created by Thomas Joplin. Though his ideas were partially put into practice with the establishment of the National Provincial Bank and the Provincial Bank of Ireland, yet it was Holden who realized the Joplin's plan through the completion of a nationwide branch banking system of the Midland Bank.

But he did not remain only a successor to the spirit of Thomas Joplin. For several reasons he was also one of the most influential protagonists in the transformation period of the British monetary and banking system. The English joint stock banks' entry into the international business which the Midland Bank first contemplated was accompanied by the "Integration Movement" between the Mother Country and colonial territories in banking business, the typical examples of which might be the "Lloyd's scheme" and the creation of the Barclays Bank (D. C. O.).²⁴ And it should be noted that these projects tried to make an imperial system of branch banking with central or intermediary organizations as "Local Boards" or "General Council."²⁵ In such a meaning it may be said that Holden made preparations for the internationalization of branch system of English joint stock banks in general, though the Midland Bank's management policy was called "conservatism"²⁶ because of its reluctant attitude to the establishment of overseas branches and Holden himself favored "the policy of cultivating a connection with foreign bankers themselves."²⁷

Another important contribution of Holden was that he became one of the founders of the currency notes system. But it seemed to herald the age of managed currency contrary to his expectations, for it introduced a sort of forced currency into the British monetary framework and thus enabled the Government to control the volume of currency issue.

²³ Cf. R. E. Cameron, "Founding the Bank of Darmstadt," in *Explorations in Entrepreneurial History*, vol. 8, 1955-56.

²⁴ In this respect it must be remembered that F. C. Goodenough, the chairman of the Barclays Bank, became a chief advocate of this movement as a "confirmed Imperialist." Cf. A. S. J. Baster, *The Imperial Banks*, London, 1929, chapter VI.

²⁵ *Ibid.*, pp. 223, 239.

²⁶ Leland R. Robinson, *Foreign Credit Facilities in the United Kingdom—A Sketch of Post-war Development and Present Status*, New York, 1923, p. 87.

²⁷ *Sir Edward Holden's Statement to the Standing Committee on Bank Amalgamations*, 12 June, 1918, p. 10.