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**The Bank of England in the Provinces:  
The Case of the Leicester Branch Closing, 1872**

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Many books and articles have been written in the past about the Bank of England in the nineteenth century, but they have almost always been confined to its role as a central bank, i.e. the main devices such as the Bank rate, open market operations etc. Even the two outstanding multi-volume Bank of England histories by Clapham and Sayers<sup>1</sup> display little interest in the Bank's commercial business. This is the more surprising as the Bank was still a privately owned profit-making institution. It paid a dividend of about 9 % a year from the mid-eighteenfifties until the First World War. This was not very much compared with other joint stock banks at that time, but the Bank had a much larger portion of proprietors' capital in the balance sheet liabilities (mostly deposits) than the other joint stock banks and its non-interest bearing securities were also substantially larger than those of the joint stock banks. The fact that the Bank of England got its deposits for almost nothing while the other banks had to pay interest for them, could only partly compensate for these disadvantages. Therefore one would expect a very active commercial business policy to allow the Bank to achieve these results. It is the intention of this article to provide a little mosaic stone in this plain white map of the Bank of England's commercial business.





I

Our knowledge about the Bank of England's commercial business in the provinces is even worse. Some articles<sup>2</sup> have been written about the history of certain country branches, but even these are confined only to the second quarter of the nineteenth century when the Bank founded its country branches as a device to increase the circulation of Bank of England notes in the provinces.<sup>3</sup> In 1826 the Government, in order to avoid a repetition of the 1825/26 financial crisis, changed the currency and banking laws (7 Geo. IV, c. 6 and c. 46). The Bank of England monopoly of joint stock banking was abolished, but on the other hand, the new law allowed, and the Government even pressed for, the opening of Bank of England Branch Banks outside London. The main reason held responsible for the crisis was the excessive fluctuation of bank notes issued by hundreds of country banks. The Government as well as the Bank's Court of Directors tried to achieve a 'much more complete control...over the whole paper circulation'<sup>4</sup> by the Bank. According to Clapham the provision to strengthen the Bank's deposit base in order to stand the competition of the new joint stock banks was another motive, but only second to the one mentioned above.<sup>5</sup>

From 1826 onwards the Bank of England opened the following country branches:



Gloucester	19. 7.1826 (closed 28.2.1849)
Manchester	21. 9.1826
Swansea	23.10.1826 (closed 28.2.1859)
Birmingham	1. 1.1827
Liverpool	2. 7.1827
Bristol	12. 7.1827
Leeds	23. 8.1827
Exeter	17.12.1827 (closed 1.5.1834)
Newcastle	21. 4.1828
Hull	2. 1.1829 (closed 14.2.1939)
Norwich	1.12.1829 (closed 31.5.1852)

Then a couple of years later the Bank opened branches in Plymouth (1.5.1834, transfer of business from Exeter) and Portsmouth (16.5.1834), primarily in order to facilitate payments at the Naval Yards, following a request by the Treasurer of the Navy to open Bank of England branches in Plymouth, Portsmouth, Chatham and Pembroke.<sup>6</sup> The last country branch, opened about 20 years after the first one, was the Leicester Branch (1.1.1844).<sup>7</sup> At that time, the year of 'Peel's Act', which changed the Bank's attitude towards its country branches considerably, the 13 country branches were the largest set of country branches the Bank ever had. But compared with the Banque de France<sup>8</sup> and later the Reichsbank,<sup>9</sup> this was not impressive.

With the passing of 'Peel's Act' the country branches lost their main function — to increase the Bank of England note circulation at the expense of the country banks — and with it the interest of modern economic historians.<sup>10</sup> 'Peel's Act' limited the note issuing rights of every bank in England. Apart from its £14m fiduciary issue, even the Bank of England could issue notes only when



covered in full by gold. The 72 joint stock and 207 private banks were only allowed to issue a total of £8.6m in 1844. In order to maintain a sufficient margin within their individual free note issue the amount actually issued by country banks was considerably less in the aggregate. This was even more true when, about the 'sixties, the cheque superseded the bank note as the most commonly used means of payment in business transactions. At this time there was probably not a single 'pure' note issuing bank in England. While retaining their note issuing licence, all of them had to switch over to the more promising future as deposit banks.

The second function of the country branches, i.e. the collection of deposits, similarly became less important in the middle of the nineteenth century. In the 'twenties the country branches had been extraordinarily successful in this field. The balance sheet of 31 August 1831 shows drawing account balances of £728,000 compared with £5.1m balances of private accounts in Threadneedle Street.<sup>11</sup> But very soon the country branches' ability to attract deposits ceased, because neither the Branch Banks nor Threadneedle Street were prepared to pay interest on deposits. The joint stock banks did so and therefore the mass of deposits that flooded into the banking sector from the middle of the century did not touch the Bank of England and its Branch Banks. During the 'sixties and 'seventies the drawing account balance yearly averages of the country branches were quite stable around a total of £2m.<sup>12</sup> But even in the dull late sixties, this was not enough to cover the Branch Banks' assets. With only a few exceptions the country branches had to draw from Threadneedle Street.<sup>13</sup> The branches with a very unfavorable deposit/discount ratio were Leeds, Leicester, Hull (from the early 'sixties) and to a lesser extent

Birmingham and Liverpool (see Table 1). Naturally the collection of deposits was still regarded as an important function of the branches, but without paying interest their means to fulfil this aim were very limited.

Table 1: Deposit/Discount Ratio of Bank of England Country Branches (1853-1872)

Year	Birmingham	Leicester	Country Branches
1853	42	16	59
1854	20	17	45
1855	26	28	39
1856	36	30	36
1857	32	21	30
1858	56	29	76
1859	58	26	75
1860	40	31	50
1861	43	36	59
1862	65	38	81
1863	44	32	65
1864	42	34	46
1865	23	44	40
1866	54	53	46
1867	109	60	79
1868	109	96	114
1869	66	61	87
1870	49	89	78
1871	58	86	85
1872	88		86

Source: Bank of England Archive, Branch Bank Office, Annual Statistical Reports, C 79/21.



The new functions of the Bank of England country branches therefore were:

1. to provide the provinces with sufficient means of payment, because under 'Peel's Act' the country banks were not able to cope with the eventually increasing ('legitimate') demand for cash (notes and coins) in times of pressure,
2. the remittance of funds between London and the provinces,
3. the collection of Government revenue and the payment of dividends,
4. mainly from the 'seventies and 'eighties onwards, to provide clearing facilities for the local banks, and
5. not to curtail the Bank's earnings.

The rather aggressive competition against the issuing banks, which the Bank introduced in the late twenties in order to increase the circulation of its Branches' bank notes, did not only have a very positive impact on the finance market of certain regions in general,<sup>14</sup> but also led to a constant increase in the Branch Banks' income from discounts.

'Peel's Act', however, changed the situation. As prescribed by the Act, the Bank of England was divided into two departments. The Issue Department, responsible for the issue of notes, was completely outside the control of the Bank's Court of Directors, but on the other hand the Banking Department 'should be governed on precisely the same principles as would regulate any other body dealing with Bank of England notes' (Peel).<sup>15</sup> While the Bank's net income from the Issue Department was very low,<sup>16</sup> because the Treasury took the lion's share of the profit derived from the fiduciary note issue,<sup>17</sup> bread and butter for the shareholders had to be provided by the Banking Department, i.e. the Bank's commercial



business in a fairly modern sense. This led to a change in the Bank's attitude towards its discount business. From 1822 to 1844 the Bank of England Head Office charged 4% as minimum rate constantly. Only during periods of high pressure was the rate of discount raised to 5% and only once, for seven months in 1839/40, to as much as 6%. But from 1844 onwards the Bank charged a fluctuating rate ranging from 2% (or even less from 1878 when alongside the official minimum the Bank introduced an unofficial minimum rate for its 'sole' customers) to 10% (in 1857 and 1866), as the market demanded. This strengthened its competitiveness in London. But there were no positive effects of this change as far as the Branch Banks' business was concerned, because the country rates were fixed independently of both London and the other Branch Banks. The outcome was that the branches very often charged a considerably higher rate than Head Office – not regarding the fact that from 1845 onwards the Branch Bank rate of discount was a minimum rate for 'first class bills'. 'First class bills', however, might not have often appeared in the Branch Banks' discount business.<sup>18</sup>

Under these conditions only Head Office was almost entirely able to secure a sufficient dividend. From about the mid-forties to about the mid-eighties the Head Office had no intention of promoting the country branches in order to enable them to add to the Bank's earning capacity. The obviously uncompetitive regulations of the branch banks' discount business were opposed to any attempt of the Branch Agents to attract new customers. Consequently the amount discounted at the country branches displayed no substantial change in the average for the decades in the mid-nineteenth century – apart from a trough immediately after the strengthened



competitiveness of Threadneedle Street's discount business (see Table 2).

Table 2: Amount discounted at the Bank of England country branches (yearly averages)

Decade	Amount
1835–1844	£20m
1845–1854	£16.5m
1855–1864	£24m
1865–1874	£22m

Source: Bank of England Archive, Special Discount Committee Reports, C 35/2–4.

One might expect therefore, that from the late forties onwards the Bank would begin to get rid of the burden of those country branches which had lost their function as a promoter of Bank of England notes and which could only be maintained at considerable loss. Clapham explains how Gloucester, the first branch, had been opened by the Bank with the expectation of meeting an urgent demand in that town and hence of opening up a new source of income.<sup>19</sup> The Bank's Committee of Branch Banks, inquiring into the possibility of opening branches in several towns, received a lot of letters from Gloucester assuring it that a Branch Bank of England would be welcomed by the trading community of that city, because many local banks had to close their doors during the aftermath of the financial crisis.<sup>20</sup> Unfortunately this proved to be a rather over-optimistic view and the Gloucester branch was also the first Branch Bank of England to be closed.<sup>21</sup> According to Roberts the situation of the Swansea branch was not dissimilar. The Bank set up this branch at least partly because of the promise of a good

profit.<sup>22</sup> When this expectation proved to be wrong, the Bank decided to close the Swansea branch, too. Finally, even the retiring agent of the Norwich branch himself advised the directors of the Bank to close the Norwich branch in 1852, because 'it was hopeless to expect the Branch to be run profitably, Gurney's (Bank) secured the cream of the business.'<sup>23</sup>

The second feature of the Bank's attitude towards its country branches in the third quarter of the nineteenth century was the introduction of a new method of assessment of the Branches' Profit and Loss Accounts. A report of the Court of Directors' Branch Bank Committee about the performance of the Leicester branch during the previous 15 years, explained what they regarded as an up to date Profit and Loss Account for the Branch Banks: '... the Committee have had the accounts made up, not in accordance with the mode adopted in the Branch Banks' and Accountant's Offices, where credit is taken for profits of circulation, but on the plan regarding only the commission and the interest on deposits as profitable sources of revenue.'<sup>24</sup> This is indeed the most obvious departure from the past. The alleged evil of the country notes was almost completely eliminated and consequently the Branch Banks' survival became more dependent on their pure commercial success. This is worth noting, because it proves that the most important reforms in certain local finance markets, which were introduced indirectly by the Branch Banks' appearance in the market, were not at all intended and only a by-product of the struggle against the country notes.



#### Footnote References:

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1. J. Clapham, *The Bank of England*, 2 Vols., Cambridge 1944; and R. S. Sayers, *The Bank of England 1891–1944*, 3 Vols., Cambridge 1976.
2. R. O. Roberts, *The Bank of England Branch Discounting, 1826–1859*, *Economica* 25/1958; M. Collins, *The Bank of England at Liverpool*, *Business History* 16/1972; D. J. Moss, *The Bank of England and the Country Banks: Birmingham, 1827–1833*, *Economic History Review* 34/1981; S. Jones, *The Bank of England in Manchester, 1826–1850*, *Bankhistorisches Archiv* 11/1985.
3. D. Ziegler, *Central Banking in the English Provinces in the Second Quarter of the Nineteenth Century*, *Business History* (forthcoming).
4. Bank of England Archive, Court Books 19. Jan 1826, quoted in J. Clapham, *The Bank of England*, Vol. 2, p. 104.
5. *Ibid.*, p.104.
6. W. M. Acres, *Closed Branches of the Bank of England: Portsmouth*, in: *The Old Lady of Threadneedle Street*, Vol. 8, 1931, p. 84. Both branches were subsequently closed, Portsmouth in 1914 and Plymouth in 1949.
7. About one hundred years later, however, in 1940 the Bank of England opened another branch in Southampton.
8. One year after the closing of the Leicester Branch Bank of England, the Banque de France was forced by law to increase the number of its country branches to 90. This number was finally reached in 1880. About half of these (and nearly all new branches created between 1874 and 1880) could only be maintained at a continuous loss. See *Bankers' Magazine* Vol. 38, 1878, p.638 and p. 663, as well as 'The Transactions of the Bank of France' in the subsequent years.
9. In 1876 when the Reichsbank became the central bank of the Kaiserreich it increased the number of its predecessor's (Preussische Bank) Offices and Sub-Offices in provincial towns from 164 to 207.



10. It should be noted, however, that even contemporary observers did not mention the Bank's provincial business. In his 'Gilbart Lecture on Banking', delivered at King's College (London) in 1878, Prof. L. Leone still included Leicester among the Bank of England Branch Banks (Bankers' Magazine, Vol. 38, 1878, p. 500), while on the other hand even Newmarch numbered nine country Branch Banks of England both in 1878 and in 1866. He probably had forgotten that the Leicester branch still existed in 1866. The eleven branches, numbered for 1858, however, is the right figure, including Leicester and Swansea. W. Newmarch, *The Increase of Banks and Branches in the Metropolis; the English Counties; Scotland and Ireland, During the Twenty years, 1858–1878*, in Bankers' Magazine, Vol. 39, 1879, p. 862 (note, table II).
11. J. Clapham, *The Bank of England*, Vol. 2, p. 112.
12. Bank of England Archive, Branch Banks Office, Annual Statistical Reports, C 79/21.
13. Bank of England Archive, General Ledgers (ADM 7). The General Ledgers stated aggregate liabilities and assets of the Branch Banks at the end of each financial half year of the Bank of England.
14. According to Sayers, in the second quarter of the nineteenth century the trend was such that the Bank might very well have become an important banker directly supporting the finance of business up and down the country, very much as the Bank of France developed (R. S. Sayers, *Lloyds Bank*, p. 152). This holds especially for Birmingham (see D. J. Moss, *The Bank of England and the Country Banks: Birmingham 1827–1833*, p. 540) and to a lesser extent for Leeds (see Pat Hudson, *The Genesis of Industrial Capital. A Study of the West Riding Wool Textile Industry, c.1750–1850*, Cambridge 1986, p. 189), Swansea (see R. O. Roberts, *Bank of England Branch Discounting*, p. 241), Liverpool (see M. Collins, *The Bank of England at Liverpool*, p. 156 and p. 158), and Manchester (see S. Jones, *The Bank of England in Manchester*, p.46; stressing the Bank's introduction of an additional element of stability into the local business scene instead).
15. Hansard LXXIV, p. 742 (Peel's speech in the House of Commons of 6 May 1844).



16. Bank of England Archive, Stock Estimates (ADM 19), Profit and Loss Accounts. Gross income and net income of both the Issue Department and the Banking Department for the Bank's financial half years 1867/68 – 1889/90 are published in D. Ziegler, *Zwischen Gurney and Baring – die Geschäftspolitik der Bank of England 1867–1890*, Bankhistorisches Archiv 12/1986, Appendix, p. 95.
17. According to the Bankers' Magazine, reporting the meeting of the Bank's General Court of Proprietors in March 1879, Sir John Lubbock (probably a pre-arranged affair between him and the Governor, because the half yearly dividend declared at the meeting was unusually high despite very low income from the Issue Department) 'asked the amount of the profit derived from the Issue Department. The Governor thought this was a very fair question. The amount was £30,093... In reply to a further question, the Governor said that in the past half year the Government received something over £69,000 profit from the Issue Department.' Bankers' Magazine, Vol. 39, 1879, p. 327.
18. The term "'first class" is ... applicable only to those names which would be considered here (London, D. Z.) as coming under that class; names locally so ranked in the district merely being excluded.' (Bank of England Archive, Branch Banks Office Circulars, C 79/5, 17.6.1847)
19. J. Clapham, *The Bank of England*, Vol. 2, p. 111 and *An Economic History of Modern Britain*, Vol. 1, p. 276.
20. J. Giuseppi, *The Bank of England*, London 1966, p. 92–93.
21. J. Clapham, *The Bank of England*, Vol. 2, p. 216.
22. R.O. Roberts, *Financial Crisis and the Swansea 'Branch Bank' of England, 1826*, *The National Library of Wales Journal*, 1958, p.85.
23. W.M. Acres, *The Bank of England From Within*, Vol. 2, London 1931, p. 573. I owe this information to Mr Byatt (Bank of England Archive).
24. Bank of England Archive, Branch Banks Office, Special Reports (C 65/7 No. 503a). It lasted until 1875, however, before the Branch Banks Office took possession of this reform. The overall depressing results of the Branch Banks performance from this year onwards, when compared with the past, reflected not only the increasing commercial failure of the Birmingham, Bristol, Hull, Leeds, Plymouth, and Portsmouth Branch Banks, but probably also the importance of the allowance for circulation disguising the commercial failure of the above mentioned branches even in the decades before.



25. Clarke, Mitchell & Philips, otherwise known as Leicester & Leicester-shire Bank, was founded in 1819 and failed in 1843. L. S. Pressnell and J. Orbell, *A Guide to the Historical Records of British Banking*, Aldershot 1985, p. 26.
26. Bank of England Archive, Court Books No. 66, 28.9.1843.
27. Secret Committee on Commercial Distress, BPP 1847/48, Vol. 8, part 3, Evidence Wright, Q 2810.
28. Bank of England Archive, Branch Banks Office, Special Reports (C65/7 No. 503a)
29. Bank of England Archive, Leicester Branch Agent's Letter Books, Out Letters, Vol. 1, 1.1.1844.
30. *Ibid.*, No. 1, 7.10.1844.
31. For the Leicester Branch Bank Rate see Secret Committee on Commercial Distress, BPP 1847/48, Vol. 8, part 2, App. 15, p. 185.
32. Bank of England Archive, Leicester Branch Agent's Letter Books, Out Letters No. 1, 1.2.1844.
33. W. M. Acres, *Closed Branches of the Bank of England: Leicester*, in: *The Old Lady of Threadneedle Street*, Vol. 7, 1931, p. 250.
34. Bank of England Archive, Leicester Branch Statistics.
35. Bank of England Archive, Special Discount Committee Reports, (C 35/2).
36. *Ibid.*, (C 35/3 and C 35/4).
37. J. Clapham, *The Bank of England*, Vol. 2, p.189.
38. Bank of England Archive, Branch Banks Office, Annual Statistical Reports (C 79/20 and C 79/21).
39. Bank of England Archive, Special Discount Committee Reports (C 35/3 and C 35/4).
40. Bank of England Archive, Leicester Branch Agent's Letter Books, Out Letters, Vol. 8, annexed.
41. Although the discount business of the country branches was still mainly conducted by customers with a discount account (between 90% and 95% during the sixties), the number of discounters who had a drawing account only, accounted for more than one third of all discounters. It seems therefore that customers with a very low credit demand (all of them 'traders') were not allowed to open a discount account and conducted their discount business at the Bank of England by their drawing account.

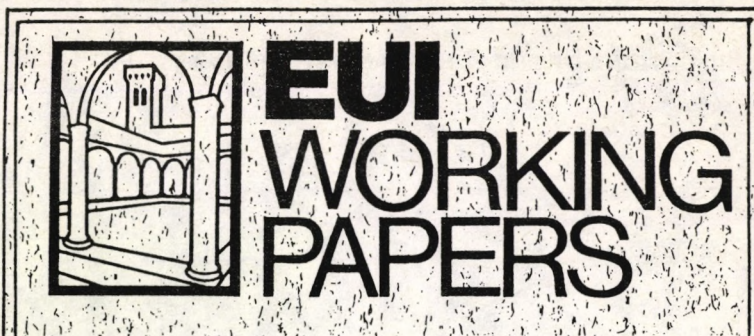


42. See, for example, the practice of the West Riding country banks (especially the joint stock banks) in Pat Hudson, *The Genesis of Industrial Capital*, p. 218–227.
43. Bank of England Archive, Leicester Branch Agent's Letter Books, In Letters No. 2, 1. April 1867, 2. July 1869 and 6. July 1869 and Out Letters No. 8, 2. April 1867 and 5. July 1869.
44. For the Committee's report see Bank of England Archive, Court Books No. 92, 8. July 1869.
45. *Ibid.*, Court Books No. 92, 8,7,1869.
46. Report dated 20. August 1869 (Bank of England Archive, Branch Banks Office, Special Reports, C 65/7 No. 503a) and discussed by the directors on 26. August (Bank of England Archive, Court Books No. 92).
47. Bank of England Archive, Court Books No. 94, 30. November 1871.
48. Memorandum not dated; see Bank of England Archive, Branch Banks Office, Special Reports (C 65/7 No. 503a).
49. In 1836 Wright agreed to abandon the issue of notes, while the Bank treated him as a privileged customer at its Birmingham branch until the passing of 'Peel's Act' in 1844. For the agreement between Wright and the Bank of England before and after the passing of 'Peel's Act' see the evidence of I.C. Wright before the House of Commons' Select Committee on Banks of Issue (British Parliamentary Papers, 1841, Vol. 5, Q 1590 – Q 1603) and the House of Lords' Secret Committee on Commercial Distress (British Parliamentary Papers 1847/48, Vol. 8, Part 3, Q 2863 – Q 2877).
50. Bank of England Archive, Court Books No. 94, 14. December 1871.
51. Bank of England Archive, Leicester Branch Agent's Letter Books, Out Letters No. 8, 18. December 1871 and 22. December 1871; see also an undated memorandum in Bank of England Archive, Branch Banks Office, Special Reports (C 65/7 No. 503a).
52. Bank of England Archive, Birmingham Branch Agent's Letter Books, Out Letters No. 26, 27. June 1898.
53. Bank of England Archive, Branch Banks Office, Misc. Papers, Agents' and Sub-Agents' Salary List, C 79/30.
54. Bank of England Archive, Leicester Branch Agents' Letter Books, Out Letters No. 8, 18. Dec. 1871.



55. A later Birmingham Branch Agent was told so when he was appointed. See Bank of England Archive, Birmingham Branch Agents' Letter Books, Out Letters No. 25, 19.3.1896.
56. In 1902, for example, a clerk gave notice to quit his service at the Birmingham Branch Bank of England, because he saw no chance any longer to move up in the Bank's clerical hierarchy. In regard to this incident the Branch Agent wrote in a private letter to the Principal of the Branch Banks Office: 'The promotion that for the third year was refused to certain of our staff was I know refused for other reasons, but you would find it difficult to convince our men that the refusal was not really based on our diminishing business... Abbott saw that there was no future here and left. F. Smith would like to do the same. Do you wonder? Some six or seven years ago we all felt that there was a good chance to become... a First Class Branch.' (Ibid., Out Letters No. 29, 5. April 1902)
57. Bank of England Archive, Leicester Branch Agents' Letter Books, Out Letters No. 1, 1.2.1844.
58. There are several instances of Pares asking the Bank for such accommodation. See Ibid., Out Letters No. 1, 10.6.1844, 18.9.1844, 2.11.1844 and Out Letters No. 4, 1.5.1855.
59. R. S. Sayers, *Lloyds Bank in the History of English Banking*, Oxford 1957, p.143.





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| 89/379: Augusto De Benedetti                               | L'equilibrio difficile. Linee di<br>politica industriale e sviluppo<br>dell'impresa elettrica nell'Italia<br>meridionale: la Società Meridionale<br>di Elettricità nel periodo di<br>transizione, 1925-1937 |
| 89/380: Christine KOZICZINSKI                              | Mehr "Macht" der Kommission?<br>Die legislativen Kompetenzen der<br>Kommission bei Untätigkeit des Rates.   |
| 89/381: Susan Senior NELLO                                 | Recent Developments in Relations<br>Between the EC and Eastern Europe   |
| 89/382: J. GABSZEWICZ,<br>P. GARELLA and<br>Charles NOLLET | Spatial Price Competition With<br>Uninformed Buyers   |
| 89/383: Benedetto GUI                                      | Beneficiary and Dominant Roles in<br>Organizations: The Case of Nonprofits  |
| 89/384: Agustin MARAVALL and<br>Daniel PEÑA                | Missing Observations, Additive<br>Outliers and Inverse Autocorrelation<br>Function  |
| 89/385: Stephen MARTIN                                     | Product Differentiation and Market<br>Performance in Oligopoly  |
| 89/386: Dalia MARIN  | Is the Export-Led Growth Hypothesis<br>Valid for Industrialized Countries?  |
| 89/387: Stephen MARTIN                                     | Modeling Oligopolistic Interaction  |
| 89/388: Jean Claude CHOURAQUI                              | The Conduct of Monetary Policy: What<br>has we Learned From Recent Experience?  |
| 89/389: Léonce BEKEMANS                                    | Economics in Culture vs. Culture in<br>Economics  |
| 89/390: Corrado BENASSI                                    | Imperfect Information and Financial<br>Markets: A General Equilibrium<br>Analysis   |

89/391: Patrick DEL DUCA

Italian Judicial Activism in Light of  
French and American Doctrines of  
Judicial Review and Administrative  
Decisionmaking: The Case of Air  
Pollution

89/392: Dieter ZIEGLER

The Bank of England in the Provinces:  
The Case of the Leicester Branch  
Closing, 1872



## II

Only about one year before 'Peel's Act' promoted these changes, the Court of Directors decided to open a new branch in Leicester. The Bank took the opportunity to take over the business of the local issuing bank Clarke, Mitchell & Philips.<sup>25</sup> The expectations of the Directors were twofold: 'It is considered that the consequent withdrawal of a large amount of local notes by the recent failure of the bank of Clarke, Mitchell & Co. offers a fair opportunity to the Bank of England to the extension of their note circulation into that part of the kingdom... The Committee <of Branch Banks> do not contemplate a large profit in the first instance, but they have reason to believe that the Branch will pay its expenses with a surplus and with a fair prospect of increasing profit.'<sup>26</sup> Despite Leicester's vicinity to Birmingham these expectations on the surface seemed to be justified, because Leicester fitted well into the criteria of suitable locations for Branch Banks. Leicester was a manufacturing centre with a large agricultural 'hinterland', where country notes were still the most important means of payment. The directors, however, did not scrutinize the prerequisites for a Bank of England Branch in Leicester and were obviously content with the testimony of the Nottingham private banker I. C. Wright.<sup>27</sup>

The Bank's expectations concerning Bank of England note circulation and profitability, however, again proved to be over-optimistic. At best the Branch Bank was partly successful. Although Leicester's Bank of England note circulation was higher than the circulation of any other Branch Bank of its size, it was mostly at the expense of Birmingham (cf. Graph 1 and Graph 2). Many



customers, like the Nottingham bank I. & I. C. Wright, previously drawing their notes from Birmingham, transferred their business to the more conveniently situated Leicester Branch. The Leicester country banks, however, were not prepared to abandon their note issuing rights. In 1844 their authorized issue was fixed at £178,000, i.e. about the same amount as the Leicester Branch Bank of England note circulation. Even in the early 'seventies they still circulated about £130,000.

Equally contrary to the Branch Banks Committee's expectations was the inability of the branch from the beginning of its operations to attract the expected quantity of deposits, because the local competitors were quick to attract many of the former customers of Clarke, Mitchell & Philips to themselves.<sup>28</sup> They succeeded in doing this, because firstly the Bank did not pay interest on balances and secondly because it was not prepared to offer the same credit facilities to the traders and manufacturers as the local banks. In the very first report the Branch Agent sent to the Branch Banks Office in London he foresaw one of the main future problems of the Branch: 'All bankers whom I have seen concur in stating that manufacturers here required at certain periods of the year advances in open account, or on securities not admissible in the Regulations of the Bank.'<sup>29</sup> And less than one year later he had to admit: 'I have scarcely any working accounts (that is, the accounts of traders and manufacturers) from the circumstances of our not making the advances so universal in this district.' He therefore declared himself unable to force the existing accounts to keep larger balances, because in this case 'the major part of them would be closed.'<sup>30</sup>



As the Leicester Branch had probably no advance business at all, there remained — apart from the allowance for circulation — only the discount business as source of income. Although the Bank's rules concerning the eligibility of bills of exchange were also restricted, the Bank was able to compete with the local banks at least for certain classes of bills. For those traders and manufacturers who had close connections with London, it might have sometimes been favourable to discount bills with London acceptors at the Leicester Branch Bank of England, because these bills were discounted at 3.5% during the years of easy money while the local banks charged 4% minimum.<sup>31</sup> Equally important for the building up of Leicester's discount business was Branch Agent Turner's close connection with the local gentry. Immediately after the opening of the Branch he began to offer special facilities to the local charities in order to induce the local gentry to come to the Bank.<sup>32</sup> In this he was fairly successful, because his lifestyle was such as to increase the prestige of the Bank. His aristocratic habits probably enabled him to build up connections with people, who were not prepared to deal with a bank clerk, such as a manager of a joint stock bank.<sup>33</sup>

Although there were neither many 'discount accounts' (only 5 regular accounts until 1854 and less than 20 in the subsequent years) nor many 'drawing accounts' discounting bills of exchange from time to time (with the exception of the early 'fifties between 6 and 37 only) at the Leicester Branch Bank of England,<sup>34</sup> its discount business grew to a rather satisfactory level of between £600,000 to £900,000 discounted bills per year.<sup>35</sup> During the 'fifties the discount business of the Leicester Branch was relatively stable. While the discount business of the country branches in the



aggregate was rather pro-cyclical — heavy demand in 1856 and 1857 and a considerably lower demand in the early fifties and in 1858 and 1859 —, the Leicester Branch discount business did not have a peak, even in absolute figures in 1856 and 1857, and so its share in the country branches' discount business reached its lowest figures in 1856 (3.8% of the average amount held in bills of exchange of the country branches, compared with a decade's average of 5.5%). Similarly, Leicester's discount business remained stable in 1860 (£163,000 held in bills of exchange compared to £159,000 in 1859), when the overall demand increased.

In its degree of stability the Leicester Branch differed from most other branches, especially those which had a large share of 'bankers' discount.<sup>36</sup> During the sixties Manchester, for example, had an average amount discounted of £4.5m per year (1861–1870), of which £3.1m were for 'bankers' and £1.4m for 'traders'. The standard deviation for the amount discounted was about 40%. This very high figure was caused almost exclusively by the 'bankers'' discounts. The situation in Birmingham was about the same. The average amount discounted was £2.5m with a standard deviation of about 35%, while the 'traders'' portion was less than £0.5m. The Leicester 'trader' business accounted for its relative stability of relatively high figures during periods of low demand and of relatively low figures in periods of high demand. This counter-cyclical behaviour was probably highly appreciated by Head Office, because the Leicester Branch added to the Bank's income when the Bank was anxious to achieve a sufficient dividend and put only moderate pressure on the Bank's liquidity reserve when London had to keep it up while accommodating the 'legitimate' demand of the money market. The need to increase the



discount business in quiet times was a very important reason for the Bank to introduce the fluctuating Bank rate of discount in 1844, otherwise the Bank had a large reserve of unemployed notes which could not be invested in other securities, because of the risk of a discount drain in times of pressure.<sup>37</sup>

It was a sign of Leicester's weakness that its discount activity followed the overall trend when in the early 'sixties demand became slack again, although it still kept its position with a share of little less than 5% in the first half of the sixties. The weakness became more marked in 1864, when the downward trend of Leicester's discount business continued while the overall demand increased substantially. Even the absolute figures decreased resulting in a sharp decline of Leicester's share in the country branches' discount business (1865: 2.7% and 1866: 2.4%).<sup>38</sup> The main reason for Leicester's failure to keep pace with the overall development was its inability to keep its 'traders' (as distinguished from 'bankers') business and from the mid—sixties, its distribution of 'traders' and 'bankers' business' approached the Manchester ratio.

Leicester, however, was no exception. The branch was hit by a development which touched probably every Branch Bank of England. But as Leicester's 'traders' business' was much more important than at most other branches, its decline in the overall figures was more serious. Because of the tight regulations all branches lost many customers: the number of discounters decreased by around 42% between 1861 and 1870.<sup>39</sup> There is no doubt that 'traders' transferred their business to a local bank, because the Bank of England Branch Agent was unable to compete with his 'neighbours'. In 1866 the Leicester branch still only had 56



drawing accounts (only 27 of which were 'mercantile' as distinguished from 'private') compared to 72 in 1856 (with 40 mercantile accounts).<sup>40</sup> In consequence the 'traders' accounted for only 29% of the discount business of the Leicester branch in 1866, probably the lowest figure ever.<sup>41</sup> The relative growth of the 'traders' share in the subsequent years was caused by the even more decreasing demand of the 'bankers'. In the final years of the decade money was abundant and there was no need for the local banks to re-discount. If we compare 1868 and 1869 with 1862, the only year of the previous business cycle with equally low demand and interest rates, there is about the same level of 'bankers' discounts, £368,000 and £251,000 in 1868 and 1869 respectively compared to £342,000 in 1862, but the 'traders' discount business was already less than one half: £169,000 and £179,000 compared to £402,000. Thus the average amount held in bills of exchange, the most suitable proxy for the size of the business, decreased from £143,000 in 1862 to £96,000 in 1867 and £57,000 in 1868.

The Leicester Branch Agent was probably aware of the possible consequences, which a continuous loss might have for his Branch Bank. Because, when Agent Turner died in December 1865, after running the branch for more than twenty years, it was already considered to close the branch. It might have been a guess by the directors of the Bank that Sub-Agent Wright would not be able to keep those customers who were attracted by Turner's splendid life style. Finally, however, it was decided that the branch should continue its operations and Sub-Agent Wright was appointed Agent.

Wright possibly knew very well that his success depended mainly on his ability to offer some inducement to the manufacturers and traders of the district. These customers, however, were not



able to offer securities of the class London was prepared to accept (Exchequer Bills, Consols, or East India Bonds). The only way to secure business 'with some sort of life in it' was to attract or to keep his customers by not strictly observing the regulations for the conduct of the Branch Banks. Naturally he did not consult the Head Office, because he obviously did not expect authorisation from the Branch Banks Office. The extent of the Branch Agent's individual 'relaxations' of the regulations is unknown, but in the second half of the 'sixties both the Branch Banks Office and the Court of Directors were concerned about the Branch Agent's unauthorized actions.

The main competitive disadvantage of the Bank of England country branches was the strict suppression of overdrafts, i.e. a book debt to an agreed—on upper limit without the backing of additional securities. Overdrafts, although condemned by the country banking text—books were granted rather generously by the competitors of the Bank of England country branches.<sup>42</sup> The Leicester Branch Agent circumvented his own Bank's overdraft regulations by discounting bills of exchange which had not yet arrived at the Branch Bank. This class of customers, however, mostly discounted without having a regular discount account, while not intending to fulfil the precondition for discounting without a discount account by keeping their sole drawing account at the Bank of England. This problem was solved with one partner of a partnership having his sole account at the Bank and applying for such disguised overdrafts, while the partnership had, indeed, more than one bank account.<sup>43</sup> In 1869 the auditors of the Leicester Branch Bank ledgers found this practice to have grown to such an extent that the Branch Banks Committee subjected the Branch Agent to an



examination about his practices.<sup>44</sup> The reason given by the Agent was, as one might expect, the general interest of the Bank of England that required such competitive measures. After the Agent's commitment to observe the regulations most strictly in the future the Branch Banks Committee declared itself satisfied: 'It appears to the Committee that Mr. Wright was not actuating by any other motive than a desire to secure a larger business for the Bank, but the course adopted to attain this end was very reprehensible.'<sup>45</sup> The Committee only instructed the auditors of the Branch Bank ledgers to observe very closely the Branch Agents' adherence to the Bank's regulations. This was probably meant as a warning because the Head Office knew very well that Leicester was not a single case.

It is therefore hardly surprising that the closing of the Leicester branch was again under consideration. The situation the Agent had tried to prevent appeared only one month later. The Committee for Branch Banks reported the Leicester Branch Bank's performance during the last 25 years.<sup>46</sup> According to this report, the deposit base of the Leicester branch was still extremely small. The most important depositors were five local banks, which had to keep a minimum balance to maintain their account. In addition to the long-lasting problem of the deposits, even the discount business has been continuously decreasing during the previous years. This resulted in a continuous loss in the profit and loss account of the branch, when profit on circulation was not taken into account. Since 1853 the only exceptions were 1860 and 1866, when the Bank earned a profit of £636 and £1,067 respectively. From 1853 (to 1868) the Bank had to bear the burden of a loss of altogether more than £25,000, that is, a yearly average of about £1,500 and



without regard to a bad debt in 1854, of about £900 in the normal course of business. Finally the Committee asked 'whether it is desirable to maintain a branch entailing such an annual loss.' However, despite the Deputy Governor's recommendation to close the Leicester Branch Bank of England, the Court postponed any decision.

It had become apparent, however, that it was only a question of time before the Leicester branch would be finally closed. The question was raised again two years later, when the Branch Banks Committee reminded the Court of its former report and added that the performance of the branch now was probably even worse.<sup>47</sup> Previously, in 1869, the Committee had considered the possibility of transferring the business of the Leicester branch to Birmingham: 'The town is too near Birmingham...that all the subjects of a public character could be equally well met by the branch there.' Moreover the most important customers of Leicester were likely to switch over to Birmingham, too. But it was only in 1871<sup>48</sup> that the Branch Banks Office drew up a memorandum stating the likelihood of a transfer of the principal discounters' business to Birmingham.

Out of the five local banks mentioned above as having a drawing account, only the Nottingham private bank of J. and J. C. Wright was a regular discounter. This bank, being a former issuing bank,<sup>49</sup> was an old customer of the Bank of England. Even before the establishment of the Leicester branch, Wrights had a considerable business at the Birmingham Branch Bank of England. Consequently they were most likely to transfer their business to the Birmingham branch. Among the traders only five had an active discount business at the Leicester branch:



- Th. Adams & Co., Lace Manufacturer (Nottingham), discount received by the Branch Bank, £324 in 1870, and transfer of business probable.
- Nottingham Manufacturing Co. Ltd., Hosiery (Nottingham), discount received by the Branch Bank, £334 in 1870, and transfer of business probable.
- J. and C. Thornton, Silk Throwsters (Nottingham), discount received by the Branch Bank, £239 in 1870, and transfer of business rather sure.
- W. B. Graham, Agent for Sale of Elastic Webbing (Leicester), discount received by the Branch Bank, £195 in 1870, and transfer of business rather doubtful.
- Robert Scampton & Son, Agent (Leicester), discount received by the Branch Bank, £138 in 1870, and transfer of business rather doubtful.

There was only one conclusion for the Court to draw from this evidence. On 14 December 1871 the Directors decided that the Leicester Branch Bank of England had to be closed on 29 February 1872.<sup>50</sup> The Leicester Branch Agent was instructed to undertake the necessary steps to keep the business of the above mentioned customers at the Bank. In his last service for the Bank the Agent was fairly successful. As the Branch Banks Office had supposed Adams, Thornton and the Nottingham Manufacturing Co. transferred their business to the Birmingham Branch Bank of England.<sup>51</sup> The same held good for Wrights, who were to be a customer of the Birmingham branch until their merger with the Capital and Counties Bank in 1898.<sup>52</sup>



### III

The Agent, aged 59, was superannuated, after having been a clerk of the Bank in Leicester since the opening of the branch. The Bank's pension to the Agent of £600 (or two thirds of the salary before retirement)<sup>53</sup> was probably sufficient to keep the standard of living of a senior Bank of England clerk. The Agent, however, complained bitterly of his compulsory retirement,<sup>54</sup> because he felt that it implied a punishment for commercial failure, which was not his fault. He might well have been able to employ as many funds as possible in securities he regarded as perfectly safe. The quality of a local security, however, could only be judged by a specialist of the local conditions and by personal knowledge of the customers and not by a Deputy Governor residing in London.

No doubt, one cannot blame the Bank of England for not acting like a country bank. Being banker of the Government, the bankers' bank and the emerging central note issuing agency the Bank had enough to do even in the provinces so that it should not interfere in the country banks' business. However, there was no clear division of labour between the Bank of England country branches and the country banks. The main reason for this ambiguous position of the country branches was the Bank's own ambiguousness of being both the central bank and a profit making institution. The Agents were told that 'it is the object of the business to make profits for the shareholders.'<sup>55</sup> Consequently, the commercial success of a Branch Bank was even at the Bank of England an important step to promote the career of every clerk up to the Agent who could at least increase his salary and standing by



moving up to the Agencyship of a First Class Branch such as Liverpool or Manchester.<sup>56</sup>

One can blame the Bank therefore for poor management and supervision. This holds less for the Agents, but rather for the directors. Since they created the commercial success as the major measure of success in general, they had to be prepared to have the Agents circumvent their instructions. This might have created additional problems as the customers became used to certain practices and got into trouble when accommodation was suddenly withdrawn. The disguised overdraft practice was discovered only by chance, since a professional auditing system was not introduced until 1894. This might have been a reflection of the directors' own ambiguous position, because they were responsible for a sufficient dividend and consequently, besides the increase of the Bank of England note circulation, an increasing profit derived from the branch was expected by the directors when they decided to open a branch bank in Leicester. But all the worse, the decision was taken on a very weak basis. The directors did obviously not know how to achieve these results. The Bank was neither prepared to compete with the local banks by bringing their regulations in line with the practices of the local finance market in order to obtain a portion of the local commercial banking business and thus forcing Bank of England notes into circulation, nor were they willing to compete with the London Agents by becoming a local bankers' bank with privileged re-discounting facilities in order to induce the local banks to abandon their note issue.

The first alternative was out of the question, because the business as conducted by the country banks was fundamentally contrary to the directors' (all of them City of London merchants or merchant



bankers) usual commercial habits; or as Agent Turner put it to a customer only one month after the opening of the Leicester Branch: 'The Bank on principle declines to make such advances <on open account>, being fully satisfied that the banker ought not find capital for his customer.'<sup>57</sup> As this and other (already cited) memoranda of the Agent indicate, the Bank obviously discovered its inability to compete with the local banks in Leicester for ordinary business only after having already opened the branch.

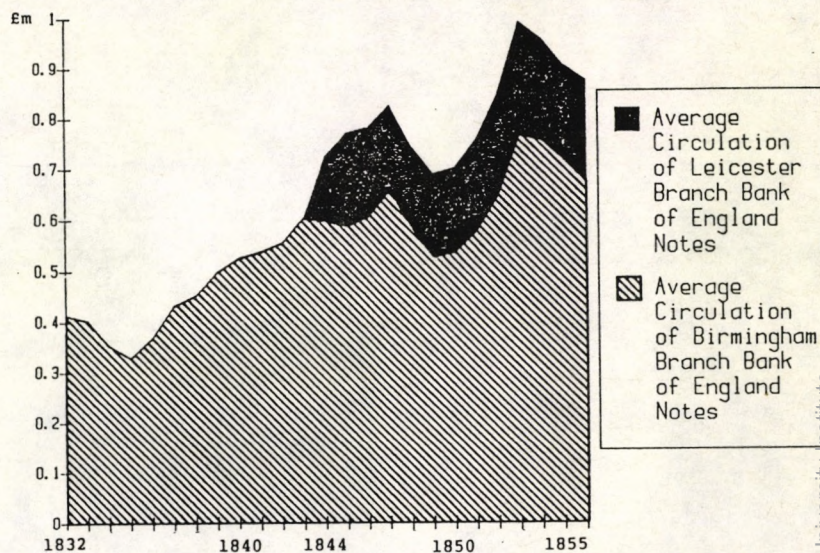
As the opening of the Leicester Branch and the passing of 'Peel's Act' came at about the same time, even the Bank's willingness to work with the local banks disappeared. The competitive conduct of the Banking Department in London from 1844 onwards enabled the Bank to keep its dividend at a satisfactory level without regard to its provincial business. Since the Bank expected a quasi-automatic surrender of the country banks' note issues, it was not prepared to induce the issuing banks to do so by making any sacrifice concerning the rate of interest on bills re-discounted. The local banks were obviously prepared to abandon their note issues if the Bank treated them in the same way as the London money market.<sup>58</sup> The Governors, however, declined: 'It is impossible to offer any opinion as to the course which the Court may at any future time determine on. It will however be open to Pares, whether issuers or not, to avail themselves to the London rate thru' the medium of agents or bill brokers here.' Thus the Bank was prepared, as Sayers commented on the comparable example of Taylor & Lloyds in Birmingham, 'to miss an opportunity of strengthening its direct hold upon the country banks; it drove <them> back to the traditional channel of the London agent.'<sup>59</sup>



The history of the Leicester Branch Bank of England therefore can be regarded as a typical example of the Bank's ambiguous policy toward the provinces. As long as the Bank was able to employ its funds with a sufficient return in the London money market or at the Stock Exchange, it could maintain a collection of country branches which lost it altogether a few thousand pounds a year without alarming the Directors. But this did not mean that a particular Branch Bank causing a continuous drain could not be closed down, since its closure would not affect the Bank's ability to fulfil definite duties. Every quasi-Government function could be met with very little inconvenience both for the Government and for the general public by the Birmingham Branch, while the most important discounters were located in Nottingham and could be expected to experience little additional inconvenience after having transferred their business, too. There were certainly other country branches, which could equally be maintained at a loss only. But the Portsmouth, Plymouth and Hull Branch Banks were either the only Bank of England Branch Bank in the whole region or had to provide a special service as the banker of the Government, as, for example, the Naval business in the case of the Portsmouth branch. The disadvantage of Leicester's vicinity to Birmingham was comparable with Gloucester and Swansea, the business of which had already been transferred to Bristol. Unlike Plymouth and Hull, Leicester could not afford to have an unprofitable commercial business.



Graph 1: Average Circulation of Bank of England Notes in the Midlands



Graph 2: Average Circulation of Bank of England Notes (Midland Branch Bank Notes in % of all Bank of England Branch Banks)

