

**The First Modern Bailout:
The Barings Crisis of 1890 and the Bank of England**

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Introduction

In 1890, the colossal British investment bank Baring Brothers & Co.¹ was in severe financial distress due to reckless lending in Argentina. With London on the brink of financial collapse, the Bank of England considered Barings to be “too big to fail” and injected liquidity, in the form of cash, into Barings’ operations, backed up by a commitment of loan guarantees from other competing banks and the British government. This “package” was organized by the Bank of England, which effectively pressured other private banks to participate in the rescue, to “bail out” Barings from potential bankruptcy in order to minimize the risk of economic contagion spreading through London and the global economy.² The Bank of England’s rescue of Barings in 1890 set a unique precedent, marking the first *de facto* instance of a bailout. Many characteristics of contemporary bailouts, whether the LTCM bailout in 1998 or TARP in 2008, have their roots in the Bank of England’s bailout of Barings in 1890.³ The same questions recur: How does the central bank limit public panic and the risk of more banks failing? How can the central bank facilitate communication between government and private actors and incentivize collective, cooperative action of competitive, private risk-takers? What does the central bank need to accomplish, in such situations, compared to the government or private banks? Is saving a single bank, however large, worth this massive endeavor?

The Barings crisis of 1890 was an international financial crisis with strands spanning the globe, from the railroads of Buenos Aires to the Paris Bourse, the Moscow Central Bank, and of

¹ Baring Brothers & Co was colloquially referred to by contemporaries and the British press as “Barings.” I use the same characterization in this essay.

² Economic contagion is caused when a major shock affecting a particular firm ripples through the entire economy and negatively affects other firms, and ultimately, the entire economy.

³ Long-Term Capital Management (LTCM) was a hedge fund that was successfully bailed out by the Federal Reserve and a consortium of private banks. The Troubled Asset Relief Program (TARP) was an overarching bailout package which allowed the U.S. government to purchase toxic assets from financial institutions after the collapse of Lehman Brothers in September 2008.

course, the world's financial center, London. The "Barings crisis" as a contemporary and historiographical title is somewhat misplaced, given that, as a crisis, it was neither particularly severe nor long-lasting. Unlike more consequential historical financial crises, such as the U.S. Panic of 1907 or the Great Depression, there was no sustained drop in GDP. Bank of England historical statistics show that a chained composite estimate for real GDP shrank 1.6% from 1891 to 1892. By 1894, real GDP had again surpassed the pre-1890 crisis level.⁴ Yet it would be a mistake to conflate a relatively minor macroeconomic impact with historical insignificance. The crisis and its resolution were not at all minor. Queen Victoria, by then in the fifty-third year of her reign, wrote about the Barings crisis in her diary: "saw [First Lord of the Treasury] Smith for more than an hour...he talked of the failure of the Barings—what great danger there had been, if the Bank of England had not stepped in, of all the Banks failing & numberless people being ruined."⁵

Indeed, as is implied in Queen Victoria's journal entry, far more significant than the actual crisis was its resolution: the bailout in the form of a Guarantee Fund fashioned by the Bank of England. Notably, the word "bailout" only appeared in a financial sense for the first time fifty years later during the Great Depression.⁶ This essay argues that the Barings crisis, more specifically the Barings bailout of 1890, produced the first practical bailout (although it would not gain the name "bailout" until the 1930s) by creating the first successful, globally-interconnected precedent for a central bank to rescue a failing private bank from the consequences of its bad investments.

⁴ "Three Centuries of Data." *Bank of England Statistics*. 1891: £122bn, 1892: £120bn, 1893: £119bn, 1894: £125bn

⁵ Diary entry November 30, 1890. Queen Victoria Journals, Bodleian Library, Oxford University.

⁶ "Bail, v.1," *OED Online* (Oxford University Press), accessed November 2, 2016, <http://www.oed.com/view/Entry/14682>. Perhaps the most famous historical financial crisis, the Great Depression, not only produced new laws and regulations, but also a new vocabulary.

During historical financial crises, we witness the great power of economics in its terrifying scale, as macroeconomic international systems, such as countries and national economies, seem to collapse into the microeconomic decisions of the firm, household, or individual. Economic historians studying the Barings crisis have identified macroeconomic parameters such as the gold standard and international capital flows as causal factors for the crisis. However, an examination of the sprawling bailout negotiations between the Bank of England, Barings, the government, and other private banks in London reveals that the existing economic analysis of the Barings bailout needs to be supplemented and amplified by the unique social and interpersonal aspects of the bailout as contributing historical factors. The communications between the principal actors during the crisis, their social-economic interaction, human temperament, motivations, and individual decision-making concurrently influenced the Barings crisis and moved it swiftly toward a resolution.

This essay goes beyond economic rationales and calls for a more comprehensive evaluation of the Barings bailout in the history of financial crises through an examination of the social and political role of the affected players. By fusing the economic and the social, the balance sheets with the telegrams, new consequences and implications of the bailout emerge. The package organized by the Bank of England was far more than a mere financial instrument. It marked a rare instance when private banks were pressured to engage in collective cooperation to save one of their dominant competitors from the consequences of their poor business judgement. Furthermore, the cooperation between the Bank of England, the Exchequer (representing the Treasury or government), and private banks reflected not just the economic inputs in the creation of the bailout, but also a new “inside” elite with the power to make far-reaching decisions in almost complete secrecy.

This global elite class of investment and central bankers appears in the larger historiographical story of the classical gold standard, which reached its zenith in the late nineteenth century.⁷ Yet the role of the financial elite at home during a crisis of its own creation, when the interactions were not necessarily between neighboring countries but neighboring offices, has not been sufficiently addressed. Therefore, this essay raises sociological questions regarding secrecy and transparency to supplement the economic questions of contagion and risk. These dynamics and relationships characterizing perhaps London's worst financial crisis are meticulously preserved in the archives of the Victorian financial elite.⁸

In reappraising the Barings crisis as a financial crisis that was ultimately resolved because of the unique economic, social, and political circumstances and individuals involved, this essay uses the economic-sociological framework of Karl Polanyi and his concept of a market economy embedded in society. Polanyi's *Great Transformation* (1944) provides a new foundation for the social economy, analyzing the economy not just as a system which impacts society, but one that is constructed and shaped by that society itself. Polanyi's writing largely covers the twentieth century, and posits the economy of the nineteenth century as "separate and distinct from the rest of society...governed by laws of its own, motivated by a very few specific incentives."⁹ Polanyi's analysis rests on the assumption that it was only the wars of the twentieth century that ended the separate market economic system of the long nineteenth century. In that vein, Polanyi's ideas on the social economy may seem to be incompatible with an analysis of the Barings bailout, which occurred in 1890. However, occurring at the tail end of the nineteenth

⁷ Under the classical gold standard, all currencies were required to maintain their equivalence to the respective country's reserve of gold.

⁸ All primary materials relating to the bailout are taken from the Bank of England Archives and the Baring Brothers Archives (ING). Supplementary materials were gathered from the Morgan Library, New York City and the Karl Polanyi Papers at Columbia University.

⁹ Karl Polanyi Papers. Rare Book and Manuscript Library, Columbia University. Box 8, MS #1012, Course Materials for "General Economic History." Lecture 3, pg 8.

century, the Barings crisis might foreshadow the breakdown of the pure market economy and provide new insights into Polanyi's theory of embeddedness and separateness. Indeed, at first glance, the Barings crisis seems to be occurring in a separate, pure market economy, as Polanyi categorized for the nineteenth century. All the players acted separately, with Barings as a free-standing bank competing with other private banks. Yet once the crisis hit and the bailout negotiations began, it soon became clear that the economy was embedded into society and that social elites, social relations, and social institutions and norms were strong motivators for actions taken by these "separate" economic actors.

Many economic historians have studied the Barings crisis, often citing it as the first example of a major financial crash (or would-be crash) with global ramifications. In his book on crises in modern finance, Youssef Cassis highlights the systemic risk that pervaded the entire financial system of London at the onset of the Barings crisis. At the time, Barings is considered "too big to fail" in the language of bailouts.¹⁰ Through a comparison of balance sheets, Cassis establishes that Baring Brothers & Co, the first case study in his series of crises, was in a worse financial position than Lehman Brothers in 2008, his last case study. Cassis recognizes the Barings crisis as pivotal in the history of financial crises. He traces the evolution of corporate governance, regulation, and consolidation from this crisis.

Barry Eichengreen has also addressed the Barings crisis. In *Globalizing Capital*, Eichengreen identifies the centrality of the international gold standard exchange rate to the bailout and how central bankers around the world had become the decision-makers of financial capital, which would touch every corner of the earth. The power of these central bankers, whom Eichengreen examines in later financial crises, embodies the elite consensus which underpins the

¹⁰ Youssef Cassis, *Crises and Opportunities: The Shaping of Modern Finance* (New York: Oxford University Press, 2011), 54.

gold standard system.¹¹ Eichengreen maintains that the Bank of England, as the leader of the global elite, manipulated the international gold standard system to resolve the crisis, while simultaneously defending the domestic currency and maintaining its leadership position. Specifically, the Bank of England borrowed gold from France and Russia so that it could lend adequately to Barings at the beginning of the crisis while remaining the “conductor of the international orchestra,” in the words of John Maynard Keynes.¹²

Eichengreen’s analysis of the elite consensus created by central bankers may perhaps explain the initial, visible financial activity (the international loan) needed to bail out Barings. However, the international borrowing was, at best, a first step to bring temporary relief to Barings and to ensure that the Bank of England’s own reserves did not run out, to avoid hastening the crisis. By itself, the loan could not have saved Barings or London from financial disaster because it neither addressed the root cause of the crisis nor created a path for ultimate solvency for Barings. In addition to the international loan, the Bank of England undertook the arduous task of compelling various domestic financial interests with competing motivations and stakes to cooperate on a common goal, financial stability, which could only be achieved through participation in the bailout of Barings. The formation and success of the Guarantee Fund, organized by the Bank of England, seems to be largely distinct from the maintenance of the gold standard. Eichengreen also does not appear to account for the smaller interactions (bank-bank or person-person) and the varied institutions at play.

Eugene White has also written extensively about the Barings crisis, especially the role of Barings as a SIFI, or a “systemically important financial institution,” which drove the fate of London’s financial system. White upholds the Barings crisis as an “important example of

¹¹ Barry J. Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 2008), 32-33.

¹² John Maynard Keynes, *A Treatise on Money* (London: Macmillan, 1930), 300.

successful pre-emptive intervention that limited damage to the economy and future risk-taking.”¹³ White’s analysis of Barings’ balance sheets is invaluable in understanding Barings’ true position: on the eve of the crisis, Barings had assets of £20 million, of which £8.3 million were toxic Argentine securities which could not be sold on the market. White also emphasizes the French rescue of the firm Comptoir d’Escompte in 1889 as an important model and precursor for the Bank of England’s rescue.¹⁴ In contrast, this essay provides a new social, political, and journalistic context to White’s economic analysis of the Barings crisis. Additionally, this essay emphasizes the domestic dimensions of the Barings crisis and rescue along with the protracted negotiations necessary to achieve the bailout. In this manner, this essay treats the Barings rescue as a bailout, the first of its kind, and a model for future financial rescues.

Chapter 1 addresses the external economic environment leading up to the Barings crisis. Chapter 2 details the bailout created through a syndicated Guarantee Fund led by the Bank of England. Chapters 3 and 4 delve into the social-economic framework and the actual entities and communications, which led to the successful resolution of the crisis with marginal effects on the real economy. Chapter 5 explores the conflicting interests and motivations of the players involved.

¹³ Eugene N. White, “Rescuing a SIFI, Halting a Panic: The Barings Crisis of 1890,” *Bank Underground, Bank of England*, February 10, 2016.

¹⁴ Pierre-Cyrille Hautcoeur, Angelo Riva, and Eugene N. White, “Floating a ‘lifeboat’: The Banque de France and the Crisis of 1889,” *Journal of Monetary Economics* 65 (July 2014): 104–19.

Chapter 1: A Crisis Brewing

Throughout the 1880s, a fortuitous combination of low interest rates and advances in telecommunications and shipbuilding, including low freight charges and refrigerated cargo holds, created the perfect conditions for a global capital flow boom. As British investors, private and public, sought lucrative opportunities abroad, it was estimated that British capital export had reached a peak of £80 million by 1890 (5.5% of GDP).¹⁵ British merchant banks played a pivotal role in this export in their financial role as acceptance houses for commercial trading bills.¹⁶ Their acceptances (guarantees) were globally utilized so that they “underpinned the international market in sterling bills.”¹⁷ London merchant banks had portfolios spanning the world, from Russia to Canada, but it was Argentina, with its rich land and pampas ripe for overseas investment, that accounted for 40 to 50% of British capital investment. Barings led British and European banks in financing development projects in Latin America, channeling an impressive £13.6 million into Argentina alone between 1888 and 1890. By comparison, the bank in second place invested only £4.5 million in Argentina.¹⁸ A number of other banks had smaller investments. Sensing lucrative returns on the horizon, Barings voraciously invested in several Argentine railroads and other land and utilities projects, exposing itself to greater risk than any of its rivals. It had also gotten in the precarious business of underwriting risky Argentine bonds on a massive scale. By 1890, three-fourths of the loans in the Barings portfolio were from Argentina and Uruguay.¹⁹

¹⁵ J. H. Clapham, *The Bank of England, a History* (Cambridge: The University Press, 1944), 324.

¹⁶ An acceptance house guaranteed that buyers paid suppliers for their purchases and provided credit against supplier bills. Acceptance houses financed trade rather than trading goods themselves.

¹⁷ Mae Baker and Michael Collins, “Financial Crises and Structural Change in English Commercial Bank Assets, 1860–1913,” *Explorations in Economic History* 36 (1999): 432.

¹⁸ Jan Körnert, “The Barings Crises of 1890 and 1995: Causes, Courses, Consequences and the Danger of Domino Effects,” *Journal of International Financial Markets, Institutions and Money* 13 (2003): 189.

¹⁹ Baker and Collins, “Financial Crises and Structural Change,” 433.

While the unprecedented levels of British capital export seemed to attest to a perfectly balanced international economy where those who needed capital easily found those who had it, there was a darker undertone to these economic trades. The relationship between finance and imperialism has been widely explored. Notably, just twelve years after the Barings crisis, John Hobson defines finance as the “governor of the imperial engine, directing the energy and determining its work.”²⁰ Similarly, in 1916, Vladimir Lenin documents the role of imperialist colonialism, describing the colonies as: “countries which, officially are politically independent, but which are, in fact, enmeshed in the net of financial and diplomatic dependence.”²¹ John Gallagher and Ronald Robinson’s famous 1953 article *The Imperialism of Free Trade* addresses the issues of economic dependence and neo-colonialism as well.²² Finally, Eichengreen correctly notes that unlike future bailouts, such as the 1996 IMF bailout of Mexico, the Barings bailout was crafted entirely for the benefit of Britain, while Argentina was left to suffer.²³ In this first era of globalization, the new financial innovations, such as the Barings bailout, were connected with the “informal empire” that reinforced the new glamorous globalized financial system.

By 1888–1889, a series of economic shocks, both in London and Buenos Aires, was enough to crack the ostensibly seamless international financial system of the previous decade. Wary of merchant banks and newly empowered joint-stock banks carrying out lending activities with precariously low reserves, in 1889 the Bank of England gradually hiked up its bank rate—the rate at which banks could borrow—from 2.5% (April) to 6% (December).²⁴ Capital investment screeched to a halt, with new bond issues for Argentina, underwritten by Barings,

²⁰ J. A. Hobson, *Imperialism: A Study* (New York: Gordon Press, 1975), 59. [Original published in 1902.]

²¹ Vladimir Il’ich Lenin, *Imperialism, the Highest Stage of Capitalism* (Chicago: Junius, 1996), 86.

²² J. Gallagher and R. Robinson, “The Imperialism of Free Trade,” *Economic History Review* 1 (1953): 1–15.

²³ Barry J. Eichengreen, “The Baring Crisis in a Mexican Mirror,” *International Political Science Review / Revue Internationale de Science Politique* 20 (1999): 249–70.

²⁴ www.bankofengland.co.uk/statistics/Documents/rates/baserate.xls

plummeting. In Argentina, the sudden withdrawal of foreign funds was catastrophic. Foreign borrowing in Argentina had already exceeded debt service charges, and after the Bank of England interest rate hikes, the Argentine government could not keep servicing the debt.²⁵ Another shock reverberated across the Atlantic when Argentina's political instabilities boiled over, resulting in a presidential coup and breakdown of the Argentine banking system. The combined shocks culminated in 1890, when the massive Buenos Aires Water Supply and Drainage Company bond, an enormous loan to an Argentine utility company, underwritten by Barings, went unsubscribed. With British and other investors refusing to subscribe to Barings' Argentine bonds, Barings was saddled with toxic Argentine securities which had plummeted in value due to Argentine inflation averaging 17% and could not be sold in the secondary market.²⁶ Table I below displays the extent of Barings' underwater Argentine loans. The six securities listed are some of the largest in Barings' entire portfolio, and in almost every instance the value dropped dramatically, sometimes even in half.²⁷

Table I: Barings Investment Portfolio

Security	Estimated Value Oct 31, 1890 (pounds sterling)	Realized Value, 1892
Argentine Great Western RR 4 $\frac{1}{2}$% Equipment Debenture Stock	20,000	9,968
Argentine 3 $\frac{1}{2}$% Bonds	38,580	22,862
Argentine Gov. 5% Water Works Bonds	1,994,161	494,364

²⁵ Eichengreen, "The Baring Crisis in a Mexican Mirror," 254.

²⁶ Peter Bernholz, "Inflation, Over-Indebtedness, Crisis and Consolidation Argentina and the Baring Crisis (1884-1900)," *Journal of Institutional and Theoretical Economics* 140 (1984): 669–84.

²⁷ Bank of England Archives, 9A/240, the Baring Brothers & Co portfolio compiled by Greene/Buck from the Bank of England and updated in the years following the crisis. In this document, Greene refers to Benjamin Greene, who was a Director of the Bank of England at the time.

Argentine 6% Funding Bonds	415,328	345,799
Buenos Ayres, City of, 4 $\frac{1}{2}$% Bonds	58,972	50,723
Argentine Great Western RR 5% Deb Stock	27,000	13,565

From 1888 to November 1890, Barings was heading closer to the edge. It is unclear why Barings continued the way it did, beyond raw risk-taking and simple desire for profit. Some historians posit that the meagre investment opportunities in London led banks and the press to ignore the warning signs from Argentina.²⁸ Others attribute the complacency to the Janus-like nature of the British financial press. On the one hand, as early as 1888, newspapers like the *Statist* issued severe warnings that Barings “failed to exercise a restraining influence upon borrowers, especially upon Argentine borrowers, when it became evident that they were piling up debt too fast.” However, *Bankers’ Magazine* at the same time named Barings as a firm which had “never known, during the present century, anything but first class credit, into which enters the elements of dignity- moral, personal and commercial alike.”²⁹ With respected press publications still vouching for the reputation of Barings, the centuries-old firm likely thought their standing would allow them to weather any potential risk.

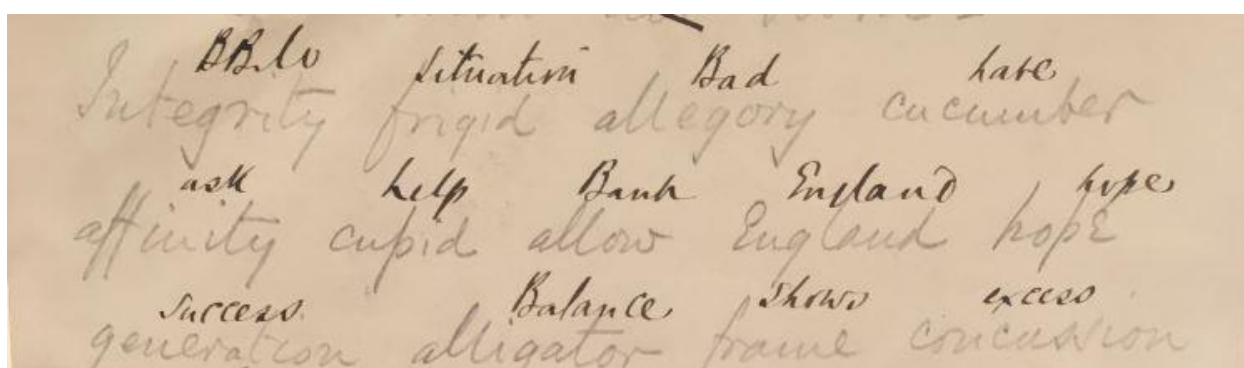
Financial shockwaves reached London only on November 8, 1890 when Lord Revelstoke (Edward Baring, the head partner of the firm) approached the Governor of the Bank of England, William Lidderdale, to formally seek assistance. The decision was not an easy one. Contemporaneous correspondence between London and the United States, where Barings had an office and several investments in railroads, reveals updates of the crisis. A telegram from London

²⁸ William Miles, “The Barings Crisis in Argentina: The Role of Exogenous European Money Market Factors,” *Review of Political Economy* 14 (2002): 5–29.

²⁹ Both quotes from 1888 are cited in David Kynaston, *The City of London* (London: Chatto & Windus, 1994), 424.

to New York on November 14, 1890, (Figure 1 below), written in code, starkly illuminates the sudden, momentous decision of formally asking the Bank of England for help. The code reads, “Integrity frigid allegory cucumber affinity cupid allow England hope generation alligator frame concussion.” The “translation” decoded in New York then reveals the true message: “BBCo situation bad have ask help Bank England hope success Balance shows excess.”³⁰

Figure 1



Interestingly, this cryptic, transatlantic cable connects family connections, secrecy, and fast communication in one sentence, demonstrating the tight-knit, insular, and global nature of the “inside” social elite.

There is little doubt that the Argentine bonds within Barings’ portfolio were the trigger for the financial crisis. On November 11, three days after admitting their troubles to the Bank of England, Francis Baring, a senior partner at the firm, wrote to his cousin Charles:

You always said that B. Ayres would be the death of us and I am afraid you were about right... We have alas been caught hopelessly locked up in various Argentine and Uruguay stocks... The result is that we are obliged to discuss our position with the Bank of England. It is very sad and just how it will end I do not like to say... The difficulty as you

³⁰ Baring (ING) Archive, HC5.1.27 partvii.

will well understand lies in the enormous figures and the effect on the public ... Today all this is a secret among half a degree but it will hardly remain so long.³¹

The panicked letter above between the Barings cousins reveals several aspects of the situation at the beginning of the crisis. For one, there seemed to be prior knowledge, or at least suspicion, that the investments in Buenos Aires (“B. Ayres”) were risky and had the potential of failing, and that someone, perhaps Charles Baring, had even warned that the Argentine transactions were dangerous. Furthermore, the word “obliged” indicated that Barings was aware of its fiduciary responsibility, perhaps even moral obligation, to report its financial woes to the Bank of England. And finally, Francis Baring, the author of this letter, acknowledged the main concern in every financial crisis: the effect on the public. The early days of November 1890 and Revelstoke’s visit-cum-confession to the Governor of the Bank of England marked the public beginning of the crisis.

³¹ Baring (ING) Archive, HC1.204.3.Q. November 11, 1890: Letter from F. Baring to Charles Baring.

Chapter 2: The Bailout

As a first step in the bailout process and with the approval of the government, the Bank of England provided Barings with immediate liquidity through loans of £8-9 million, so that Barings could meet its immediate obligations, mostly in the form of upcoming acceptances.³² The existing assets of Barings were simultaneously divided into “good” assets and “toxic” assets. The good assets became the assets of a new Barings firm, now a Limited Liability Company, Baring Brothers Ltd., which would continue to provide financial services to clients in the usual manner from a financially solvent position. The new Barings firm would also have to pay back the initial loan from the Bank of England. The toxic assets, those which could not be sold on the market, were taken over by the Bank of England, with the intent of liquidating them in a phased manner so that these assets could have the time and opportunity to recover their value.³³ Members of the Baring family who had personal liability for the old Barings toxic assets were required to sell their property and personal assets to generate cash funds to cover potential losses from the toxic assets.

The staggered liquidation was also planned to avoid distress sales of the toxic Barings assets, largely collateralized in Argentina, so that the enormity of the losses could be potentially reduced. However, there needed to be a backstop to the process above since there was no guarantee that the process of value recovery for Barings’ toxic assets would unfold so successfully as to wipe out the entirety of the estimated losses. The Bank of England, as a central bank, was unwilling to end up as the only backstop, this lone lender of last resort, and the sole

³² In financing trade at the time, Barings would give acceptances, or promises of future payments, e.g. to investors who had invested in Barings’ securities in Argentina.

³³ The idea that liquidity needs to be immediately injected to allow time for “toxic” assets of private banks and financial institutions to recover value, and prevent systemic risk from spreading throughout the global financial system (economic contagion), was also behind the 2008 Troubled Assets Relief Program (TARP).

rescuer of a private bank from the negative consequences of its reckless business actions.

Accordingly, the Bank of England approached the other banks to participate in a Guarantee Fund, where they would share, pro-rata to their participation, any potential residual loss after three years (later extended to five) from the disposal of Barings' toxic assets by the Bank of England.

The rationale behind the Guarantee Fund was to create a collective fund which would plug any potential long-term gap in Barings' finances if the good assets were not enough to cover their liabilities after the liquidation of the toxic assets. The commitments made by the participating banks in the Guarantee Fund would hopefully not be called upon, but were merely signals to take the pressure off the new Barings firm. The Bank of England covertly sent out the request to different private banks of the British financial community to join the Guarantee Fund on November 10, 1890, two days after their meeting with Edward Baring (Lord Revelstoke), the head of Barings. The "advert" or request to join was not sent to the public. The Guarantee Fund document approved by William Lidderdale, Governor of the Bank of England read, in part, as follows:

In consideration of Advances which the Bank of England have agreed to make to Messrs. Baring Brothers & Co., to enable them to discharge at maturity their liabilities existing on the night of 15th November, 1890... We, the undersigned, hereby agree... to make good to the Bank of England any loss which may appear whenever the Bank of England shall determine that the final liquidation of the liabilities of Messrs. Barings Brothers & Co. has been completed. All the Guarantors shall contribute rateably, and no one Individual, Firm, or Company, shall be called on for his contribution without the like call being made on the others.³⁴

Governor Lidderdale's conception of the Guarantee Fund was ingenious, as the phrase "to make good...any loss" legally committed the private banks to bear some of the potential loss in the event of Barings being unable to repay the Bank of England both for any initial loans and

³⁴ Bank of England Archives, G15/193.

for other losses incurred during the long process of liquidating toxic assets. What made the Guarantee Fund so unique was that it was a powerful economic and social instrument. The Guarantee Fund, amounting to £17.1 million, became a “who’s who” of the British financial world, with every major bank contributing. The editorial board of the *Economic Journal*, published by the Royal Economic Society, wrote in their very first issue in 1891 that “many of the later subscriptions were sent in by people who thought it would ‘look good’ to have their names on the list.”³⁵ That the *Economic Journal* featured the Barings bailout in their very first issue emphasizes that observers at the time also saw the dual nature of the Fund: an economic tool which would save a failing firm and a social tool with which to boost public and business stature.

Table 2 shows the list of participants to the Guarantee Fund, and provides insight into the size and power dynamics within the banking sector: the bigger and more powerful the banking group, the higher the amount of commitment. Furthermore, the truly global nature of finance in the late nineteenth century emerges, with colonial and foreign banks contributing close to £2 million. Wealthy American banks, such as J.S. Morgan & Co, Drexel, Morgan & Co, and Kidder, Peabody & Co also contributed to the Fund.³⁶ The Bank of England was obviously the leader, committing to £1 million. In addition, a breakdown of the participating banks in Table 3 reveals the new power of the joint-stock banks of London, which also put in half a million pounds each.³⁷

³⁵ “The Crisis of 1890,” *The Economic Journal* 1, no. 1 (1891): 195.

³⁶ Vincent Carosso Papers, Morgan Library & Museum. J.P. Morgan, as a leading member of the global financial elite, ensured that all of his associated banking firms were involved with the Guarantee Fund.

³⁷ Information from both Tables 2 and 3 from Bank of England Archives, G15/189

Table 2: Overall Breakdown of Guarantee Fund Participants

Contributor	Amount (£)
Bank of England	1,000,000
Banks — London	5,650,000
— Country	1,685,000
— Scotland	2,100,000
— Colonial and Foreign	1,700,000
Discount Houses	890,000
Finance Houses, Merchants, etc.	3,145,000
Individuals	935,000
TOTAL	17,105,000

Table 3: Leading Participant Banks in Guarantee Fund

Bank	Amount (£)
Bank of England	1,000,000
London & Westminster	750,000
London & County	750,000
Nat'l Provincial Bank of England	750,000
N.M Rothschild & Sons	500,000
Glyn Mills & Co	500,000
London Joint Stock Bank	500,000
Union Bank of London	500,000

The financial commitment of all the major banks to the Guarantee Fund was made mandatory by the Bank of England to send a message to the markets that financial stability in the marketplace was paramount and the collective responsibility of all the participating players. For the participating banks, the Bank of England's lead role and large participation in the Fund made their risk-sharing in the resolution of the Barings debacle possible. They were also perhaps aware that if a large bank, like Barings, went bankrupt, their own financial viability could be threatened due to the risk of economic contagion. The Bank of England had created a structure where it

would not be stuck with a large share of any potential residual losses after the completion of Barings' toxic asset liquidation process. Cassis marks the Guarantee Fund as a mechanism that would be used in many financial rescues in the subsequent century.³⁸ Furthermore, Cornelia Woll has shown that financial rescues, or bailouts, are more successful when the burden of bailouts is shared, and it is possible to organize coalitions for bailouts only in certain social settings.³⁹ The Barings Guarantee Fund was the first such coalition.

In a testament to the success and ingenuity of the Guarantee Fund, the limited liability format for the new Barings firm provided the Barings family with the opportunity to continue their investment banking business on a sounder financial footing. The new Baring Brothers Ltd., had a capital of £1 million and was subscribed by many leading London houses. At the same time, the existence of the Guarantee Fund also provided the family with the window to gather enough funds, mostly from selling personal property and furniture, to pay off the newly created debt to the Bank of England over an extended period of five years. Undeniably, Lord Revelstoke and other Baring family members suffered personal financial losses. However, the commercial and social reputation of the Barings brand remained largely undiminished. As David Kynaston, the “biographer” of the City of London notes: “Barings, supremely, was the establishment’s political, social, financial *inside* house.”⁴⁰ The concept of being on the “inside” is pivotal to understanding the mechanics and personal forces behind the bailout and is perhaps the reason that the Barings firm was healthy by 1900.

Like most modern bailouts, the Barings bailout also had an international dimension. Governor Lidderdale, with an assist from the Treasury, borrowed from France and Russia to “grease the wheels” and begin the process of injecting funds into Barings. He initiated the

³⁸ Cassis, *Crises and Opportunities*, 9.

³⁹ Cornelia Woll, *The Power of Inaction : Bank Bailouts in Comparison* (Ithaca: Cornell University Press, 2014).

⁴⁰ Kynaston, *The City of London*, 436. Original Emphasis.

process by approaching the great rival banking house, “the Rothschilds whom I asked to get some gold from France.”⁴¹ This favor-seeking among economic elites is reminiscent of Polanyi’s paradigm of an economic system which functions through social connection. The international loans have received great attention within the historiography of the crisis. Eichengreen points to the loan as evidence of the Bank of England stabilizing its gold reserves so it could continue to prop up the gold standard while lending to Barings.⁴² Ramaa Vasudevan characterizes these loans as one of the first examples of “quantitative easing,” where the central bank purchases securities to increase the money supply in the economy and provide liquidity.⁴³ It is evident that the international dimensions of the bailout are significant and emphasize the role of the gold standard as a governing system. However, the domestic elements of the bailout—the banks which participated, the government answerable to the public striving for stability, and a central bank eager to restore calm—are equally important, and provide insights about modern bailouts as well. The next section will examine more closely the interpersonal negotiations and the complicated nexus of people and institutions, all with different stakes and intents, which collided and colluded to create the Guarantee Fund.

⁴¹ Bank of England Archives, G15/192. Lidderdale comments, section B.

⁴² Eichengreen, *Globalizing Capital*, 35.

⁴³ Ramaa Vasudevan, “Quantitative Easing through the Prism of the Barings Crisis in 1890: Central Banks and the International Money Market,” *Journal of Post Keynesian Economics* 37, no. 1 (October 1, 2014): 91–114.

Chapter 3: Players at the Table

The key players surrounding the crisis belonged to a social network and interacted within their environment in a specific manner. Understanding this context is critical to analyzing the actions of the players which led to the end result: the bailout. After all, a bailout can also be seen as a series of negotiations and conversations with the expected end result of economic stability. Yet the path to economic resolution most often lies in human decisions and exchanges. Hence Karl Polanyi's concept of the "social economy" can be a useful framework for contextualizing the world of late-nineteenth-century London. Polanyi links the sociological notions of society and elitism with the economy: "The problem of the economic system in society involves several important questions such as separateness or 'embeddedness' of these institutions, the actual psychological motives on which individuals participate in the running of those institutions..."⁴⁴ For Polanyi, an economic system cannot be untangled from the society it operates in, and thus social assets play as large a role as physical and financial assets. This perspective, in which the social and economic are not separable, where "psychological motives" are as important as economic ones, is particularly apt in analyzing the Barings crisis. This was a crisis personally and intimately labelled by a family name, forever connecting an economic phenomenon like a financial rescue with a family, one of the most fundamental social units.

While specific individuals could be cast as the main players at the heart of this financial panic, their actions and decisions only make sense within the larger network of the banking elite, where London bankers were recognized as a specific sub-class in London at the top of the moneyed middle-class. Late-nineteenth-century bankers ("haute banque" in Paris) clearly formed their own class with intermarriage among wealthy banking families. Cassis has documented the

⁴⁴ Karl Polanyi Papers, Rare Book and Manuscript Library, Columbia University. Box 7, MS #1012, Course Materials for "General Economic History." Lecture 2, pg 2.

banking elites' attempts to enter the aristocracy and politics mostly through strategic marriage and connections.⁴⁵ While there were many prominent banking families who formed this elite class, such as Glyn's, Lloyd's, and Hambro's (all included in the bailout negotiations), there were undoubtedly two top banking families in London in the nineteenth century. Lord Byron's satiric epic poem *Don Juan* (1824) names them succinctly:

Who keeps the world both old and new, in pain
Or pleasure? Who makes politicians run gibber all?
The shade of Buonaparte's double daring?
Jew Rothschild and his fellow, Christian Baring.⁴⁶

Much like the literary Dickensian orphan, the London banker was a common character in late-nineteenth-century London. Societal rules and expectations were set out for them, resulting in tensions between those expectations and their ultimate (often self-serving) actions. During this first era of globalization with fast-travelling money and easy investment, market economy seemed to reach its zenith, and, in the words of Polanyi, "If the trading class was the protagonist of market economy, the banker was the born leader of that class."⁴⁷ Even respected contemporaries elevated the platform of these bankers. Walter Bagehot, famed author of the "Bagehot Rule"⁴⁸ glamorized this class: "The name 'London banker' had especially a charmed value. He was supposed to represent, and often did represent, a certain union of pecuniary sagacity and educated refinement which was scarcely to be found in any other part of society."⁴⁹ Yet the Barings crisis showcased the ugly reality that Barings did not operate on what Bagehot somewhat optimistically deemed "pecuniary sagacity," but rather on something more reckless.

⁴⁵ Youssef Cassis, *City Bankers, 1890-1914* (New York: Cambridge University Press, 1994), 227.

⁴⁶ George Byron. *Don Juan*. Canto 12, Verse 5.

⁴⁷ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, MA: Beacon Press, 2001), 208. [Original published in 1944.]

⁴⁸ The Bagehot Rule stated that banks should continue to lend at a high rate against good collateral. It remains the oft-cited, historical origin of lender of last resort "guidelines" for central banks.

⁴⁹ Walter Bagehot, *Lombard Street [Electronic Resource] : A Description of the Money Market* (New York: Scribner's, 1897), 270. [Written originally in 1873]

Lord Revelstoke: Baring Brothers & Co Bank

The Barings were the epitome of social success in London society, with generations of Baring children marrying into aristocracy and visually establishing their dominant position through expensive residences and participation in elite social life. The Barings' banking success dates to the 1760s when Francis Baring, later First Baronet, the son of German immigrant and wealthy merchant Johann Barings, established the business in London. The Barings found early success as an acceptance house and helped finance the Louisiana Purchase in 1803. The family reached such heights within the London banking elite that it was reported that in 1818, the Duc de Richelieu, prime minister to Louis XVIII, named six great European powers: Britain, France, Prussia, Austria, Russia, and the Baring Brothers.⁵⁰

While competition and rivalry among bankers were commonplace, the social and economic contexts again overlapped as bankers not only competed, but often relied on each other personally and for financial advice. At the start of the crisis, Lord Revelstoke of Barings did not directly approach the Bank of England,⁵¹ but asked for the advice of his close friend, Everard Hambro, a senior partner at Hambro's, another premier British merchant bank. Hambro then organized the fateful meeting between the Bank of England and Barings. In a testament to the bank-based financial system and the vaunted position of the "City bankers" as London's elite, one merchant bank acted as a liaison between another struggling private bank and the Bank of England. Barings, a private bank, acted irresponsibly and sent shockwaves through the domestic and global economy, yet the process for recovery was initiated and carried through by private banks as well. Furthermore, both Lord Revelstoke of Barings and Everard Hambro were

⁵⁰ Philip Ziegler, *The Sixth Great Power: Barings 1762-1929* (London: Collins, 1988), 10.

⁵¹ The Bank of England was, at the time, not a central bank as we know it, but rather a private bank set up in 1694 as the Government's banker and debt manager. Per the Bank Charter Act of 1844, it had been granted monopoly over currency note issuing authority. Around this time, it no longer pursued competition with other banks, but started to act more like a modern central bank. See: <http://www.bankofengland.co.uk/about/Pages/history/default.aspx>.

directors on the Board of the Bank of England. The dividing line between central bank and private bank was permeable, with the board membership of the Bank of England largely consisting of the elite of the merchant banking community.⁵²

Within the ranks of the powerful banking elite, the main “social assets” were reputation, family, and political associations. Barings possessed all three. In this era before bond rating agencies or other modern techniques to judge the value and soundness of investments, banking credibility was established by trust, reputation, and estimates, rather than by balance sheets or “proof.”⁵³ Two key hallmarks of the Barings crisis were over-reliance on this vaunted social capital of reputation and the utter inability of Barings to assess the declining value of their Argentine bonds.⁵⁴ The Barings also had political connections. One of the family elders, Evelyn Baring (nicknamed “OverBaring” by locals), later Lord Cromer, played a prominent political role in Egypt and the Civil Service in India. By far the strongest social assets owned by Baring *Brothers & Co* were the generations of brothers and cousins in the powerful Barings family spread far and wide across the colonies and globe.

The key figure in the saga of the Barings crisis and bailout was Edward “Ned” Baring, who was referred to by his aristocratic title Lord Revelstoke, a peerage title he had only received five years prior in 1885. During the bailout negotiation between the Bank of England and Barings, many of the transmissions back and forth contained the “evidence” of balance sheet accounts and other numerically expressible factors like gold reserves and assets to liabilities

⁵² The situation was not that different in respect of the Board of the Federal Reserve Bank of New York before the 2008 crisis. On the Board of Directors of the Federal Reserve of New York in 2007 were Richard Fuld of Lehman Brothers and Jamie Dimon of J.P. Morgan. Lee Bollinger of Columbia University was also a non-voting member. <https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual07/directors.pdf>

⁵³ Cassis, *City Bankers, 1890-1914*, 28.

⁵⁴ As a consequence of the Barings crisis, Crédit Lyonnais in France researched sovereign risk more thoroughly and developed new methods for assessing sovereign bond rating. See Marc Flandreau, *The Making of Global Finance 1880-1913* (Paris: Development Centre of the Organisation for Economic Co-operation and Development, 2004), 27.

ratios. However, the written communications between family members offer the most vivid account of the true shape of a financial crisis. The harrowing correspondence of a family on the brink of collapse, and who was, perhaps, also the cause of the entire catastrophe, provides modern readers with a more complex view of a financial crisis. For example, Emily Revelstoke, wife of Lord Revelstoke, wrote to her son on November 30, just after the Guarantee Fund had been organized and news had spread of Barings' crash:

...delightful to get out of London. Papa is bitter of course dearest, by the scale of what might have happened, the catastrophe of failing and the ruin to others nothing seems to signify! = but it is a great calamity as it is I am more sorry for poor Papa—no longer young—to have to begin again...to have to endure this...coupled with the thought he by one mistake has done this...we are all well—no one is hurt outside, only the partners.⁵⁵

Emily Revelstoke's pained letter to her son depicts the emotions behind a bailout and financial crisis: guilt, shame, regret. Furthermore, her word choices of "catastrophe" and "calamity" come from the source of the panic itself. They therefore signal just how perilous the Barings crisis was to the family reputation. Economic historians sometimes tend to minimize the Barings crisis since it was averted, yet this letter betrays the utter panic of the time. Finally, this letter provides a brief glimpse into the role of women in banking, a truly male-dominated industry embodied aptly by the name Baring *Brothers*. Emily Revelstoke, a Baring wife and mother, clearly has a grasp of the ramifications of the financial events and proceedings. Her last statement "no one is hurt outside" reveals a keen understanding that if the contagion were to touch the public, the social and economic standing of the Barings family would be severely, perhaps irreparably damaged.

While such family communications elicited sympathy for the instigator of the financial crisis, Lord Revelstoke, similar correspondences also placed some of the harshest criticism and

⁵⁵ Baring (ING)Archives, DEP 47, letter from Emily Revelstoke to Everard Baring, November 30, 1890. Punctuation and emphasis in the original.

blame on the family itself. Many newspapers were quite liberal with their disapproval of Barings' actions, although the Bank of England, as the government's banker, could not opine publicly about its views. Similarly, the social rules for competing banks would have prevented them from openly maligning Barings. Yet private letters between other Baring brothers illuminated the fury and disgust at the risky actions of Lord Revelstoke. It can be conjectured that these criticisms were very likely being hurled behind many closed doors in London. Tom Baring from New York wrote his uncle Evelyn on November 6, two days before Lord Revelstoke (Ned) went to the Governor of the Bank of England: "This is such a grievous thing to contemplate and there is really no excuse for Ned and he has been reckless in business as in his own private money matters—losing his head from success—departing from all the old rules and traditions of the firm and doing things incessantly foolish."⁵⁶ Tom Baring, part of the younger generation of Barings, likely felt less sympathy for his elderly uncle at the center of this crisis. A week later, he wrote a much angrier letter to his uncle Evelyn: "Ned would have it all for himself—glory and wealth and he might at least have guarded our good name—but it has all gone: offered up to his insatiate vanity and extravagance."⁵⁷ The rage and bitterness conveyed in "insatiate vanity" offered a glimpse into the unsavory reputation of Lord Revelstoke within the Baring family.

William Lidderdale, Bank of England

The next major player in the bailout negotiations was the Governor of the Bank of England, William Lidderdale. Lidderdale, a former partner at Rathbone Brothers, another major London investment bank, has received much praise from his peers and historians alike for his deft control and decisive leadership in the early, developmental phase of central bank creation.

⁵⁶ Baring (ING) Archive, DEP 84, Letter from Tom Baring to Evelyn Baring, November 6, 1890.

⁵⁷ Baring (ING) Archive, DEP 84, Letter from Tom Baring to Evelyn Baring, November 14, 1890.

Eichengreen notes the international constraints of the gold standard which hindered the Bank of England from providing liquidity and funds to domestic banks, as any such action could disturb the international flow of gold and the ratio of gold to pounds sterling. By lending out of its own reserves, central banks became considerably hampered in their ability to convert to gold.⁵⁸

Writing in 1873, Walter Bagehot evokes a previous financial crisis in 1866 in which a local firm, Overend & Gurney, failed. However, in the 1866 case, the Bank of England refused to engage domestically, perhaps overly mindful of its international responsibilities. Although Overend & Gurney was much smaller than Barings and less consequential for the macroeconomy, Lidderdale likely acted decisively in the Barings crisis of 1890 because of the memory of the Bank of England's failure to intervene in 1866.⁵⁹

However important the international aspect of central bank leadership—and indeed the Bank of England immediately borrowed money abroad in 1890—analyses of the bailout proceedings indicate that Lidderdale was equally successful in navigating the *domestic* responsibilities and the pioneering challenges facing a private, central bank. On the one hand, the Bank of England was a banker's bank which could lend to other private banks. On the other hand, the Bank of England was the government's—Her Majesty's—banker and debt manager and could not undertake any unilateral action without the consent of the Chancellor of the Exchequer, the First Lord of the Treasury, and most importantly, the Prime Minister. Central banks of the time were indeed, as Keynes noted, “conductors of the international orchestra,” but there was a sizeable domestic orchestra to contend with as well.

The Bank of England had to be extremely careful not to alienate either the private banks to whom it lent or the government apparatus to whom it was accountable. Indeed, Lidderdale's

⁵⁸ Eichengreen *Globalizing Capital*, 32–33.

⁵⁹ Eichengreen, *Globalizing Capital*, 35–36.

recollections of the crisis clearly indicated this struggle. The Chancellor of the Exchequer, George Goschen, had offered Lidderdale a prized “Chancellor’s note”—a blank check to use public money or borrow money in order to cover funds outside of reserves, which, at face value, would have solved all of Lidderdale’s problems with a bailout of Barings. However, in Lidderdale’s own words: “This offer I at once declined, assuring him [Goschen] that the Bank [of England] were ready to make sacrifices in order to meet the crisis with their own resources without such assistance.”⁶⁰ Had Lidderdale accepted the Chancellor’s offer, not only would the public debt have increased through the sudden borrowing, but the Bank of England would have been obligated to the government, both financially and in political capital and power. Lidderdale later expanded upon his reasoning for refusing the Chancellor’s note, saying that he “absolutely declined, telling [the Chancellor] that reliance on such letters was the cause of a great deal of bad banking in England.”⁶¹ Lidderdale’s response not only chalked out an early glimmer of central bank independence, but also normalized the notion of central banks as the guardians of responsible banking. Further, in its activities as the biggest private and also central bank, the Bank of England needed to set a good example for smaller banks.

Thus Lidderdale conceived the unique idea of a Guarantee Fund: a combination of private banks and the central bank, with the involvement and support of the government, collectively bearing the potential cost of the rescue.⁶² As Lidderdale recalled during his meeting with the government: “I told them [Goschen/government] the facts and asked what government would do. The Bank was all the time taking in Barings Bills and it was not fair that we should

⁶⁰ Bank of England Archives, G15/192, Lidderdale Recollections, 1900, pg 2.

⁶¹ Bank of England Archives, G15/192. Lidderdale comment, 1900, section D,E.

⁶² Nathaniel Rothschild, whose French operation was involved in the 1889 Banque de France rescue, assisted in envisioning the structure. See Hautcoeur et al (2014).

bear all the risk.”⁶³ Here, Lidderdale simultaneously affirmed the connection between central bank and government, while further defining the distinction between them. Lidderdale alerted the government that other banks had a responsibility to contribute (“not fair that we should bear all the risk”) and also made clear that the central bank and government were independent players despite the linkages between the two. Looking forward in time, Lidderdale’s interaction with the Treasury in the Barings bailout foreshadowed the current, hard separation between monetary (central bank) and fiscal (government) action across countries in the world.⁶⁴

Lidderdale Recollections is a separate document created by the Bank of England in 1900 to transcribe Lidderdale’s memories of the Barings crisis. That the Bank of England created this document ten years after the crisis perhaps signifies an institutional desire to preserve Lidderdale’s perspectives as an example of central bank leadership at a time of crisis. Thus the importance of the Barings crisis: though it was short lived as a financial crisis, its resolution was clearly so successful that the Bank of England wished to preserve its details for posterity.

George Goschen, Chancellor of the Exchequer, British Government

The last important entity in the trifecta of key players involved in the Barings bailout, beyond the private bank and central bank, was the government: the Treasury or Exchequer. Governor Lidderdale of the Bank of England exercised most of the decision-making power in resolving the financial crisis, yet he still had to answer to the government. From his perspective, the government seemed to be more of a hindrance than help. In Lidderdale’s own recollections of the crisis, he remarked that Goschen, the Chancellor of the Exchequer, simply told him: “Mr. Governor, you gave me a bad Sunday; you did not tell me why you wanted to see me, but this

⁶³ Bank of England Archives, G15/192. Lidderdale comment, 1900, section D,E.

⁶⁴ The notion of central bank independence is pivotal to the economic success of modern capitalist systems.

only made me the more uncomfortable.”⁶⁵ While Lidderdale clearly appeared to be more powerful in that moment, possessing both more information and the plan to fix the problem, economic historians need to take note of the government’s role in the bailout negotiation. One of the downsides to viewing Lidderdale as the unparalleled “hero” of the Barings crisis, as he has often been glorified in the historiography, was that the government and its valid concerns get left out of the picture. Indeed, Lord Salisbury, the Prime Minister, and George Joachim Goschen, the Chancellor of the Exchequer, survive in the historiography as indecisive and over-committed to the economic orthodoxy of the time—laissez-faire, non-interventionist economics.⁶⁶ Both Goschen and Lord Salisbury, as members of the Conservative Party, would likely have been wary that too much interventionism in the market would be attacked by their political rival, the great statesman “Grand Old Man” William Gladstone, who had helped define the “Liberal,” laissez-faire economic bent of late-nineteenth-century Britain.

Regardless of the criticism of his indecisive nature, especially in comparison to Lidderdale’s clear-sighted decision-making, Goschen emphasized what generally remains a government’s main concern regarding a bailout to this day: solvency, or whether a bank (in this case, Barings) had enough assets to cover its long-term liabilities and obligations. Chancellor Goschen, however much power he ceded to Lidderdale, stood firm on Barings’ solvency as a condition for any sort of intervention, reportedly saying:

If the Bank can assure me, after examining the Firm’s position, that with reasonable time they would be fully solvent and have a reasonable surplus, the Government wish the Bank to do all in their power to help them through, but if not, and the Accounts only show bare solvency, you must do what you like. I will have nothing to do with keeping up an insolvent House.⁶⁷

⁶⁵ Bank of England Archives, G15/192, Lidderdale Recollections, transcribed 1900, pg 2.

⁶⁶ Kynaston, *The City of London*, 430-1.

⁶⁷ Bank of England Archives, G15/192. Lidderdale comments on Greene’s Statement, February 1900, section A. Once again, Goschen, representing the British government, raises an issue which modern governments would consider in bailouts over a century later.

Therefore, while Lidderdale's central bank leadership had a major impact on the alleviation of the financial crisis, the government insistence on more than "bare solvency" also contributed significantly to the process of resolution. Notably, the spirit of Bagehot's central bank guidance of lending freely to solvent banks with liquidity problems resonates in Goschen's conditions. Recall White's calculations that Barings on the eve of the crisis had capital of £4 million, assets of £20 million (evidence of solvency) and £8.3 million toxic Argentine securities (evidence of liquidity problems).

Solvency, a firm's ability to meet its long-term financial commitments, has often been used as a marker of whether intervention is necessary, or even worth the effort. A solvency crisis, which Goschen and Lidderdale were so concerned about, would have implied that Barings' debt was greater than its assets. And if Barings was not able to pay its debts long term, if it became an "insolvent House," then why save it? Additionally, why should a private bank (albeit with many central bank functions) like the Bank of England intervene to rescue another private bank? Do the rules of competition and laissez-faire not imply that failing banks should fail? The popular phrase "too big to fail" is relevant here as Governor Lidderdale might have argued that Barings, though insolvent in the short term, due to a shortage of liquidity, could potentially topple the entire financial infrastructure if it were allowed to fail (go bankrupt). In other words, the systemic risk would be too great. The issue at the heart of the decision on whether to intervene or not were thus the solvency of a critically important financial private player versus systemic failure. Goschen later recounted this immense struggle: "If I do nothing and the crash comes I shall never be forgiven: if I act, and disaster never occurs, Parliament

would never forgive my having pledged the National credit to a private Firm.”⁶⁸ Goschen’s anxiety reflects the awareness of the inside players to outside public scrutiny and judgement.

In the end, Goschen and the government supported the bailout because they were persuaded of the danger posed by the combination of short-term insolvency and systemic risk. Correspondence among family members (where there presumably would not be a need to hide the truth) indicated that the firm was likely just barely solvent in the long term: “we are in reality more than solvent but if BB [Barings] don’t meet their acceptances, we may have to stop for a time.”⁶⁹ If Barings’ short-term financial situation was not enough reason to persuade the government to allow Lidderdale to create the bailout, the systemic risk and potential collapse of the rest of the financial system almost certainly was. As Lidderdale recounted: “On learning the facts Mr. Goschen at once recognized the gravity of the position, that if Barings failed we were in for a financial crisis [compared] to which that of 1866 would be a trifle.”⁷⁰ This concept of systemic risk turned out to be one of the most important incentives for private banks agreeing to the hastily planned bailout. Howard Lloyd, the head of Lloyd’s Bank, wrote in his diary: “I was urgently summoned to London, to be informed that a catastrophe was impending that might shake British credit to its foundations.”⁷¹ The complicated nexus between banks, the central bank at the apex, and a government interested in the continuity of a stable financial system resulted in the injection of funds into Barings to boost their liquidity and thereby limit systemic risk. The Barings rescue became the first modern bailout.

⁶⁸ Kynaston, *The City of London*, 430.

⁶⁹ Baring (ING) Archive, DEP 84, Letter from Tom Baring to Evelyn Baring, November 6, 1890.

⁷⁰ Bank of England Archives, G15/192, Lidderdale Recollections, 1900, pg 2.

⁷¹ Baring (ING) Archive, DEP 250. “Notes and Reminiscences of Lloyds Bank, 1862-1892” by Howard Lloyd. General Manager, April 1871-March 1902. Transcribed 1917.

Chapter 4: Secrecy from Outsiders

The three main players in the bailout—Revelstoke, Lidderdale, and Goschen—represented the three most important institutions at the heart of a financial crisis: a private (failing) bank, the central bank, and the government. All were part of the social elite. Following Polanyi, the formation of groups and hierarchies essentially creates an “inside,” the group which possesses social assets and makes the important decisions, and an “outside,” those who are left outside the process to react. The boundaries between the two groups shift as the crisis intensifies or dies down. As information passes to certain groups and not others, the notions of secrecy, transparency, and accountability rise to the forefront as all the players involved grapple with the question that seems as unanswerable in 1890 as in 2008: is this bailout an “inside job” designed to save a risky actor or a necessary action to save the entire financial system?

Secrecy and transparency immediately come to the forefront as it becomes clear that the one group left out of the negotiations to save Barings and the financial system was the citizenry. Public involvement in bailouts or financial distress scenarios is a murky area, and economists and lawmakers still have not found the right balance. After all, most bailouts occur in emergency situations, and quick thinking and decisive action, such as Lidderdale exhibited, might be the only solution to staunch the panic. Involving the larger population, either through a hearing or through updates to the press, might simply delay resolution or cause more pain for all.

During the Barings bailout, as newspapers reported on the Guarantee Fund and the main categories of participants, the specifics were left unpublished and thus unknown to the public. In a revealing testament to the inside-outside dichotomy, letters between the archivists in Barings and the Bank of England as late as 1985, nearly one hundred years after the bailout, disclose that the documents about the Guarantee Fund had remained closed to the public. In 1985, when the

Bank of England requested to Barings, “We should appreciate it if they were not released,” they received the response, “of course, they would not be made available to anyone outside the house.”⁷² Somehow, there was fear that even a century later, this information would be dangerous in outside hands.⁷³ Remarkably, the institutional elitism and secrecy that dominated the actual bailout in 1890 became one of the bailout’s lasting legacies.⁷⁴

During the Barings crisis and bailout, the common citizenry was treated differently from the inside members. This intangible perimeter between insider and outsider, elite and commoner, can be seen in two ways: access to privileged information and participation in financial decision-making. In the first category, the lay public and members of the inside had access to different information. When they finally reported on the Barings crisis and Guarantee Fund, the majority of newspapers sent out a similar headline like the *Exeter and Plymouth Gazette*: “It [Barings] has been saved, and, therefore, all is saved.”⁷⁵ While later reports in newspapers, notably the weekly *Economist*, were more damning towards Barings’ prior conduct, the general tone of the press indicated that the crisis had been averted.

Meanwhile, internal bank correspondence reveals a far more uncertain environment. David Larnach, head of the London Joint Stock Bank (one of the largest contributors to the Guarantee Fund), wrote to the Bank of New South Wales, Sydney on November 15: “I may tell you in confidence that intimation has been given by the Bank of England to the governments of your Colony and Queensland that they must not think of placing their loans upon this market for a very long time to come.”⁷⁶ While it is true that Barings had been saved, Larnach’s passage of

⁷² Baring (ING) Archive, DEP 209, Letters between JFA Pullinger (BoE) and John Orbell (Barings), Feb. 1985.

⁷³ For example, the chart on page 20 of participants in the Guarantee Fund was not made public in 1890.

⁷⁴ The exact date of public release of the Barings files is unclear, but from 2013, it has been Bank of England policy to make records over 20 years old available to the public. <http://www.bankofengland.co.uk/archive/Pages/faqs.aspx>

⁷⁵ “The Affairs of the House of Baring.” *Exeter and Plymouth Gazette*. Nov. 18, 1890. British Library Newspapers.

⁷⁶ Baring (ING) Archive, DEP 223, Letter from David Larnach to George Miller, Nov. 12, 1890, pg 2.

information “in confidence” sheds doubt on the second part of the public headline, “all is saved.” Unaware of the financial tremors that shook the foundations of banking from England to Australia, the common public was firmly on the outside.

Beyond access to or exclusion from inside information, insiders were defined by their participation in decision-making. During the formation of the Guarantee Fund, very few people were involved in the negotiations: Lidderdale (Bank of England), Goschen (Treasury), Rothschild (the top banking firm and Barings’ rival), and Barings. Later, as more banks were needed to join the Fund, the circle was expanded, but it still only included members of the financial elite. Immediately after the Guarantee Fund was formed, a Committee was set up to sort out Argentine finances. This Committee perhaps was a place that could have expanded the inside circle and included members of Parliament, investors, or other commoners. Yet as the fiery socialist Henry Hyndman, who would later form the Social Democratic Federation in Britain, noted: “Not a single bondholder or shareholder was represented on this great committee, of which Lord Rothschild was the chairman, and the whole affair was arranged to the ruin of the investors so as to suit the pockets of those who sat with him round the table.”⁷⁷ While Hyndman’s account is polemical, it is true that the members of the Rothschild Committee, as it became known, contained only merchant bankers. Ironically, although it was completely closed to the British public, the inner circle included Cahen d’Anvers and Adolphe von Hansemann, the top merchant bankers of France and Germany respectively.⁷⁸ Polanyi’s social elite, in which the economy was embedded, clearly transcended national boundaries.

⁷⁷ H. M. Hyndman, *Commercial Crises of the Nineteenth Century [Electronic Resource]* (New York: C. Scribner’s Sons, 1892), 158–59.

⁷⁸ Bank of England Archives, G15/260, Rothschild Committee Documents.

Transatlantic ties were also especially strong during the Barings crisis.⁷⁹ Jacob Schiff, a prominent Jewish-American banker, wrote to British banker Ernest Cassel, on November 25, 1890: “I myself am still pondering so intently the abyss which the financial world faced, and which has fortunately been bridged by the courageous intervention of London’s *haute finance*.”⁸⁰ Considering the extent to which the newspapers downplayed the Barings crisis once the information was released to the public, Schiff’s letter and the “abyss” he described reveals the reality of the situation and the disparity in knowledge between the public and the inner elite.

The crisis broke in November 1890. By December, all newspapers had reported on the issue and the common public had heard of the Guarantee Fund. Yet it was not until May of the following year that there was any public questioning about the mechanics of the Guarantee Fund. The timing implied that the House of Commons was not involved either during or immediately after the crisis. The questions raised by William Harcourt, leader of the Liberal Opposition, bear remarkable similarities to modern questions about bailouts, and the very questions this essay seeks to address regarding Barings. Deep inside a debate about Customs and Revenue, Harcourt questioned Goschen:

There was, no doubt, a very dire necessity which led to very extraordinary and unexampled measures on the part of the Bank of England. I do not presume to judge that action, but there is one thing which the House of Commons is entitled to know in relation to the Baring guarantee, and that is, what part Her Majesty’s Government were called upon to take, and what part they did take? That is a serious matter, because it is a precedent of a most dangerous sort. If you are to prop up one house in this way, why not others?⁸¹

Harcourt’s concerns, which easily could have occurred in the United States Congress in 2009 or any other modern bailout discussion, forcefully highlight the public worry about protecting and

⁷⁹ The transatlantic relationship, especially the financial connection between New York City and London, is both social and economic, and was prominent not only in Barings but in the Panic of 1907, the Great Depression, and the Crisis of 2007-8.

⁸⁰ Cyrus Adler, *Jacob H. Schiff: His Life and Letters* (Garden City: Doubleday, Doran, 1929), 30–31.

⁸¹ HANSARD House of Commons Archive. HC Deb 26 May 1891, vol 353 cc1108, Harcourt to Goschen.

rewarding bad behavior as a dangerous precedent.⁸² Harcourt's loaded question regarding government involvement in the crisis seems to vindicate Goschen's earlier obstinacy and insistence that the Guarantee Fund be organized solely by the central bank and private banks, rather than the government. Clearly there would have been a political cost had the Treasury been more explicitly involved in the bailout scheme.

In the choice between secrecy and transparency, the orchestrators of the bailout opted on the side of secrecy from outsiders, perhaps justifiably so. However, secrecy and transparency between the lay public and the elite could have been bridged through journalism and the free press. A brief analysis of reporting in the British press during the Barings bailout poses a rather confounding question: were journalists, who were supposed to make information publically visible, engaged in enforcing the inside-outside binary? The British press in the nineteenth century was widespread and deep, with hundreds of newspapers and thousands of transatlantic cables sending and receiving scoops across the globe. Historians have seen the press as a positive force, which had the power to regulate the economy through "communicating reputation."⁸³

While the crisis broke on November 8, British newspapers did not break the story until November 17. Yet the secrecy in Victorian London was not impermeable. On November 8, the same day Lord Revelstoke of Barings approached the Bank of England, a cartoon appeared in *Punch* magazine, which showed the Bank of England, personified as a witch, scolding banker "school-boys," implying that there was suspicion (or even knowledge) that a financial scandal was at hand (See Figure 2).

⁸² Harcourt's description of the Bank of England's actions as "extraordinary and unexampled" bear remarkable similarities to recent descriptions of Ben Bernanke's unconventional monetary policy.

⁸³ James Taylor, "Privacy, Publicity, and Reputation: How the Press Regulated the Market in Nineteenth-Century England," *Business History Review* 87 (2013): 683.

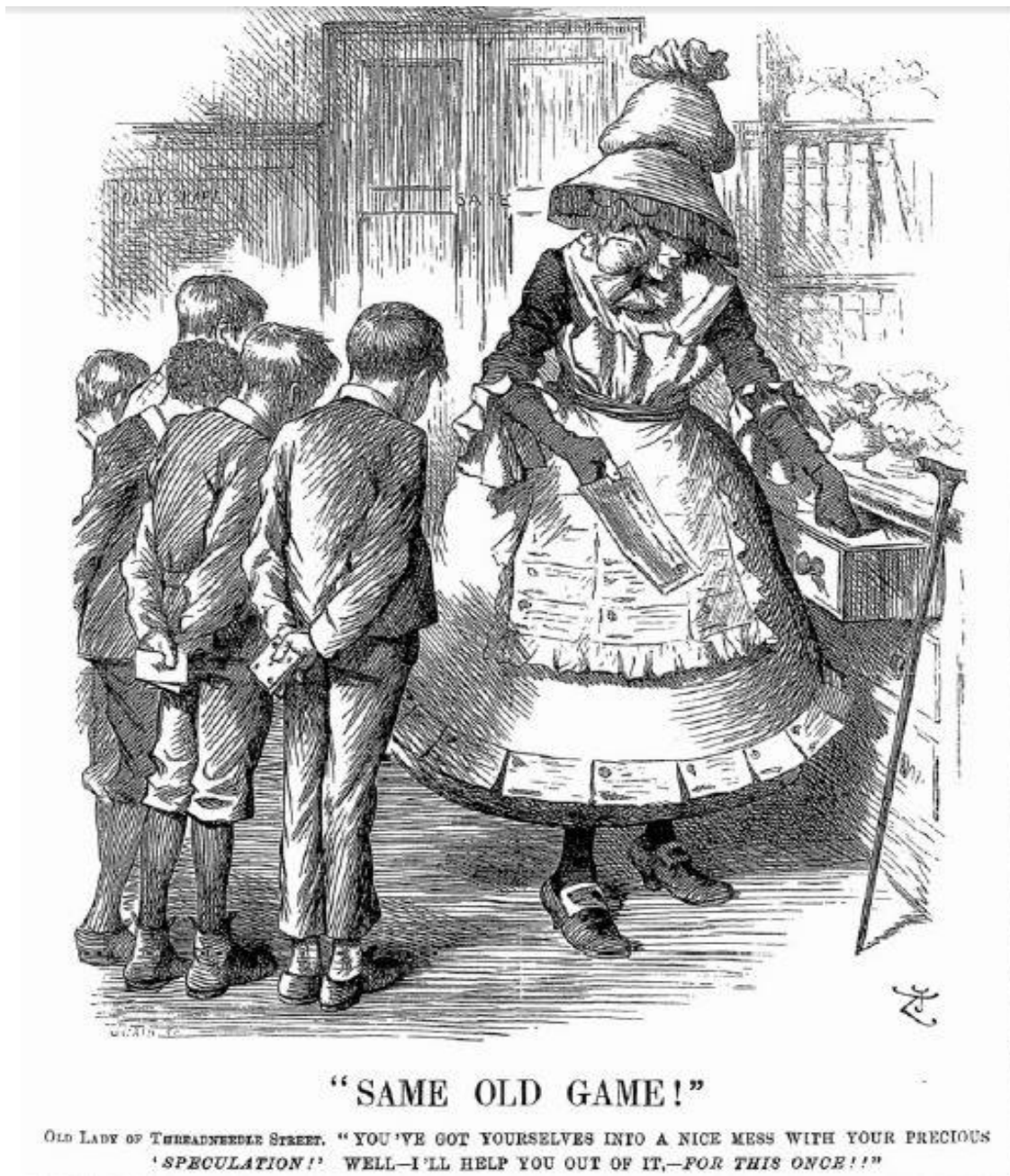
Figure 2

Figure 3 (next page) gives a timeline of the Barings crisis alongside the names of newspapers who broke the story. Notably, the financial press with eminent, respected names like the *Economist*, *Financial Times*, *Times of London* all published the story far later than their

smaller British and American peers.⁸⁴ Shockingly, it appears that American newspapers broke the story first, though *Punch* had sent a signal in its cartoon in Figure 2. Given the instantaneity of cable and the fast pace of information travel, it seems highly unlikely that British newspapers would find out information about London days after American newspapers.

Figure 3

November 8	<i>Barings approaches Bank of England</i> Punch magazine cartoon (Barings not named)
November 15	<i>London bankers assembled</i> New York Times, Atchison Globe (Kansas), Milwaukee Journal, St. Paul Daily News, Charleston Mercury, Daily Inter Ocean (Chicago) etc.
November 16	LA Times, Milwaukee Daily Sentinel, Rocky Mountain News, Boston Daily
November 17	Pall Mall Gazette, Standard (UK), Emporia Daily Gazette (Kansas), North American (Philadelphia)
November 18	Daily News, Standard Derby Daily, Evening Telegraph, Belfast News-Letter, Glasgow Herald, Liverpool Mercury
November 19	Times of London, Telegraph
November 21-22	Economist, Financial Times, Commercial and Financial Chronicle, Manchester Times

Why did British newspapers wait so long? Perhaps the press did not want to contribute to a psychological spread of panic or fear. By waiting for the crisis to subside before publishing, people were less likely to panic and withdraw deposits. Yet the job of the press is to be the eyes and ears of the public, not to stop bank panics. It is ironic that news spread so much faster and the press was more “open” transatlantically, while London appeared to be completely without financial news in the week immediately after the crisis. Financial crises not only warp the scope of economies, with macroeconomic trade collapsed to individual decisions, but also information and communication. The news was more public and accessible an entire ocean away than in the City of London where it occurred.

⁸⁴ Manually gathered from ARTEMIS online archive of Nineteenth Century US/UK magazines, newspapers, and periodicals.

Chapter 5: A Game of Chicken

A discussion of any bailout needs to include an analysis of the conflicting interests and motivations of the competitors. Private actors are often unwilling to participate in large scale financial rescues, particularly when one of their competitors is at the center. Woll explains: “Finance–government relations during a banking crisis are comparable to the game-theory situation referred to as ‘chicken.’ Both participants want to avoid seeing the economy crash, but the one who moves first loses.” What often resulted is what Woll has dubbed “collective inaction” where no bank acted to save a competitor and the bailout effort failed, or the costs were unloaded disproportionately on the “bailer out of last resort,” who are usually the public or the taxpayers.⁸⁵ Recalling Polanyi’s paradigm in which the economy is “submerged in social relationships,”⁸⁶ why did the other banks of London intervene to save Barings? Their incentives and motivations could be effectively categorized as personal and economic, with the understanding that these concerns often overlap. Yet the Guarantee Fund should be considered as the “first (successful) bailout” precisely because these private banks *did* collectively act.

In the world of late-nineteenth-century banking, personal prejudices and biases often played a major role in fomenting rivalries among banks beyond the motivation of economic competition. For the powerful Rothschild family, this prejudice often took the form of anti-Semitism. The Rothschilds belonged to the banking elite given their massive wealth, banking success, and European connections. However, they never fully belonged to this elite because of their Jewish heritage; they intermarried not with the English, Christian aristocracy, but with the

⁸⁵ Cornelia Woll, “Bank Rescue Schemes in Continental Europe: The Power of Collective Inaction,” *Government and Opposition* 49, no. 3 (July 2014): 428.

⁸⁶ Polanyi, *The Great Transformation [Electronic Resource]*, 48.

Jewish aristocracy across Europe.⁸⁷ With regard to the bailout, letters within the Barings family (and doubtless across many other banking families), indicated that anti-Semitism was a direct reason why other gentile banks would join the Guarantee Fund. T.C. Baring, one of the family elders, wrote during the crisis: “The City groaned at the idea of being handed over bodily to the Jew, and the new Co[mpany] has all the Christian sympathy and support. The accursed Jew is certainly now omnipotent nearly everywhere—they evidently are God’s own people!”⁸⁸ Such comments were not limited to one Baring, indicating the severity of anti-Semitism in Victorian England, even among the elite. In the midst of the crisis, Robert Baring wrote: “There is great antipathy shown to the idea of the Jew being paramount in London as he is elsewhere.”⁸⁹ The most violent anti-Semitic sentiment came from John Baring, one of the younger Barings, who wrote to his Uncle Evelyn:

...so as to surcumvent [sic] if possible the machinations of these blasted Jews. I’d like to see them all crucified upside down, but in the meantime they are reaping a huge advantage from what the newspapers delight in calling the ‘Baring smash.’⁹⁰

While these Baring accounts are reflective of their social elite status, it is striking to see an economic conversation, such as a bailout, become so linked with virulent, personal prejudices. John Baring clearly thought the Rothschilds were profiting from the Barings’ bad press. The above quotation also underscores the complex interconnectedness of economic and social motivators. Did the Barings dislike the Rothschilds because of their faith or their business acumen? Clearly, the answer is both. Other banks most likely would not have wanted Rothschild, the top-ranked player, to remain successful, due to their envy and their anti-Semitic prejudice. Also, by assisting in the survival of Barings as a powerful, second-ranked player, they could act

⁸⁷ Cassis, *City Bankers, 1890-1914*.

⁸⁸ Baring (ING) Archive, DEP 84, Letter from T. Baring to Col. Evelyn Baring, December 17, 1890.

⁸⁹ Baring (ING) Archive, DEP 84, Letter from Robert Baring to Col. Evelyn Baring, November 21, 1890.

⁹⁰ Baring (ING) Archive, DEP 84, Private (noted) letter from John Baring to Evelyn Baring, February, 1891.

as a check to the economic dominance of Rothschild. However strong the anti-Semitic impulses of the social elite, from the Bank of England's perspective, the Rothschilds were a large, global player and their inclusion was essential to achieve the goals of the bailout.

On the economic side, if competing banks had some of their business connected with the troubles of the "bailee" bank, they would likely be interested in seeing that bank saved. The private banks which had syndicated with Barings to lend to Argentina would share in a Barings loss and thus would prefer that Barings not fail. The Bank of England believed that self-preservation was one of the strongest forces behind the Guarantee Fund, with one of their directors, Benjamin Greene, writing:

...The Guarantees were given—except in the case of Barings personal friends—from selfish motives, perhaps that is too strong—but say from motives of self-protection. The Banks were largely committed on Barings acceptances which would have been very inconvenient to them had they gone with bankruptcy...It was not done out of friendship for Barings—but to save their shareholders.⁹¹

This strong characterization, with unusually blunt and harsh language for an official, demonstrated the sheer force of self-interest regarding bailout negotiations. Several smaller banks had invested in Barings and probably felt forced to join in the fund so that their own assets were not jeopardized.

What about the other rivals of Barings, notably Rothschild? Indeed, in another scathing family letter, Robert Baring sneered that Nathaniel Rothschild only committed to the fund because the Bank of England "shamed them into it."⁹² Howard Lloyd, head of Lloyd's bank, recalled that "Our holding was quite small, and it was not without some reluctance that the Directors sanctioned my signing for the Bank the guarantee for £250,000."⁹³ Regardless of competition and reluctance, recall the breakdown of the participants in the Guarantee Fund

⁹¹ Bank of England Archives, 13A84/7/19. Letter from Benjamin Greene to Mr. Collet, September 14, 1895.

⁹² Baring (ING) Archive, DEP 84, letter from Col. Robert Baring to Evelyn Baring, Nov 25, 1890.

⁹³ Baring (ING) Archive, DEP 250. Howard Lloyd Notes 1862-1892.

(Table 3), to which Rothschild contributed £500,000, the highest amount of any family merchant bank. In fact, considering that Rothschild not only contributed to the domestic fund, but also induced the Bank of France to lend to the Bank of England, Barings' great rival was certainly vital to the bailout's success.

Most likely, successful banks competed because of the stigmatization which would arise if they did not help ("X is to blame for the collapse of the financial system"). Keeping with Woll's description of the game of "chicken," Rothschild gained significant political capital and gratitude by saving its competitor. Rothschild was also acting in its own self-interest; appearing solely dominant would have hurt it as well. Nathaniel Rothschild, as well as the principals of other financially stable banks which contributed to the bailout fund, perhaps temporarily took on contingent liabilities by contributing, but they gained significant social assets in the form of gratitude and respect from the Bank of England. Furthermore, it was in the public interest that all banking firms, big and small, successful and troubled, participated. If only the firms in trouble participated, they would be immediately labelled as "risky" and failure might spread. With all firms, including and especially the successful ones like Rothschild participating, the Guarantee Fund could be perceived as a collective entity acting for the common good.⁹⁴

Moral hazard, when firms or people take more risks because the cost of the risk is borne by someone else, is also central to any analysis of the Barings Guarantee Fund. If banks knew that someone else would bear the risk or that the government would bail them out, they would have little incentive to manage or limit their risky transactions. Perhaps other banks joined the Guarantee Fund because they conjectured that the Bank of England would rescue them as well, if

⁹⁴ A modern parallel could be the pressure exerted in 2008 by the Secretary of the Treasury Hank Paulson on financially unaffected firms Wells Fargo and J.P. Morgan, to accept TARP (bailout) funds so as not to stigmatize the other firms requiring these funds for their "toxic" assets.

they fell into similar predicaments. Many commentators at the time believed that the Bank of England was incentivizing risky behavior and not punishing irresponsible actions.

Specifically, the Barings crisis attracted attention amongst left-wing critics of capitalism. Hyndman, who had railed against the Rothschild Committee for not having any public members, wrote in 1892: “It is quite possible that, when the circumstances come to be reviewed in the dry light of history, the Barings crisis of 1890, and the way in which it was met, will be cited as an example of the break-down of capitalism in the department of high finance.”⁹⁵ The key phrase “the way in which it was met” signified that the Guarantee Fund-bailout was truly unprecedented for its time—the first time the government through its central bank had intervened so directly in a free-market private bank and bailed it out when it had made reckless loans. Beatrice Webb, the famous labor historian and economist who would be a founder of the London School of Economics and the Fabian Society, scoffed in her diary about the actions of Chancellor of the Exchequer Goschen: “Goschen has at last found a happy land as protector of City princes.”⁹⁶ In the House of Commons, Goschen may have been able to convince his fellow members of Parliament that the government had no involvement in the bailout, but Webb and other leftist critics would not be so easily persuaded.

The criticism was not limited to the left. Recall the *Punch* magazine cartoon (Figure 3), which featured the Bank of England personified as an old woman (the Bank of England was and still is called “The Old Lady of Threadneedle”) who is scolding a group of schoolboys (the banks), saying: “You’ve gotten yourselves into a nice mess with your precious ‘Speculation!’ Well—I’ll help you of it—*For this once!*”⁹⁷ Clearly, the press believed that the Bank of England

⁹⁵ Hyndman, *Commercial Crises of the Nineteenth Century*, 158.

⁹⁶ Beatrice Webb, *The Diaries of Beatrice Webb* (Boston: Northwestern University Press, 2001), 349.

⁹⁷ *Punch* magazine, November 8, 1890. Emphasis in original.

had set a bad precedent by rescuing banks (the naughty school-boys) from the consequences of their own mistakes.

Other contemporaries chose to take a more altruistic view, such as Roger Glyn, a participant in the Guarantee Fund, who wrote that the bailout was the “first occasion on which bankers... subordinated their own individual interests to the necessity of joint action for the common good.”⁹⁸ This view was consistent with the ideal *gesamtkapitalist*, as identified by Karl Marx in his *Capital*: the capacity of self-interested oligopolistic actors to overcome their differences and promote the interest of the system as a whole. Recall American banker Schiff writing to his British banker colleague that only the “courageous intervention” of the London elite saved the day. Furthermore, the notion of collective action in a capitalist system and a small, concentrated elite acting with great financial power, in what could be viewed differently as “capital market conspiracy,” would be seized upon by later scholars in intellectual developments of capitalism and finance.⁹⁹

Surprisingly, the characterization of the London *haute finance* as heroes was not limited to those bankers themselves, but spread to the government as well. Chancellor Goschen, perhaps trying to deflect blame from House of Commons Opposition leader Harcourt’s accusation of government collusion in the Barings crisis, effusively praised the banks: “It is a great credit to the banking institutions of the country that in two or three days they took the necessary steps to save the crisis.”¹⁰⁰ Goschen’s omission of government involvement was enough to quell any major opposition that the government had acted out of step and there was no more debate in the Commons about the government involvement in the bailout, or the bailout itself. Yet without the

⁹⁸ Roger Fulford, *Glyn’s, 1753-1953, Six Generations in Lombard Street* (New York: St. Martin’s Press, 1953), 208.

⁹⁹ Hobson’s theory on imperialism rails against the large banks, notably the Rothschilds. Hilferding’s theory of finance capital hinges on the concentration of banking, although the connection with industry is less evident in the Barings crisis.

¹⁰⁰ HANSARD House of Commons, HC Deb 26 May 1891 vol 353 cc1128.

leadership of the Governor of the Bank of England, who, in turn, required the leadership and direction of the Chancellor of the Exchequer, it is doubtful the aforementioned “banking institutions of the country” would have been able to carry out the bailout in such an effective manner.

The stark difference between the public opinion reflected in the press (cynical, protection of risk taking) versus the bankers’ perception (altruistic, “common good”) is striking. The Bank of England, which took responsibility for coordinating and organizing the bailout, positioned itself somewhere between cynicism and altruism. The following quote was from 1897, *seven years* after the bailout. Benjamin Greene, a director of the Bank of England, wrote to William Lidderdale, the former Governor of the Bank of England:

I do not believe the Public generally realize the magnitude of the Commercial calamity that was averted by the action of the Bank...It was not on behalf of the Barings, as many think, that the Bank came to the rescue, but to save the Commercial World from immense inconvenience & loss.¹⁰¹

Seeming to bristle against the charge of moral hazard (“on behalf of Barings”), Greene defends the importance of systemic risk to the process of negotiation.

¹⁰¹ Bank of England Archives, 13A84/7/10, Letter from Benjamin Greene to William Lidderdale, 1897.

Conclusion

The Barings Guarantee Fund, hastily crafted by the Bank of England with approval from the British government, saved the British financial system from collapse and prevented the renowned family merchant bank Baring Brothers & Co from crumbling. After five years, Barings Brothers Ltd. was viable—the liquidation of “toxic” assets did not cause any financial loss for the Bank of England—and none of the participants in the Guarantee Fund had to incur a liability against their guarantee. The partners of the new Barings Brothers Ltd. wrote to the Bank of England in 1895: “The pleasing duty devolves on us to ask you to accept our most sincere and heartfelt thanks for your great confidence and consideration during the entire term of the liquidation.”¹⁰² The brief thank-you note marks another example of the personal and social mixing with the economic in the bailout process. Meanwhile, the City and Barings moved on, with Barings regaining its former glory by the beginning of the twentieth century. They would remain a presence in British banking until 1995 (almost an exact century after the first crisis) when excessive risk-taking and overexposure through investment in new, complex derivatives securities in Singapore annihilated their balance sheet. The second time, the Bank of England did not bail them out.

The Barings crisis and bailout had several long-term effects on the economic practices within London. The first was an amalgamation movement, where scattered, small banks around the country merged and consolidated. After all, the Barings bailout had shown that there was an incentive to be “too big to fail.” If Barings, which had financial ties all over the world, had not been so large and dominant, it is doubtful that the Bank of England would have saved them with such decisiveness. More importantly, financial transparency began to gain importance, perhaps

¹⁰² Baring (ING) Archive, DEP 175, Letter from Baring Brothers Ltd to the Bank of England, 1895.

as a response to the *lack* of financial transparency in the boom period of the 1880s. Chancellor Goschen mandated that banks, especially joint-stock banks, had to regularly publish their audited balance sheets.¹⁰³

Baker and Collins highlight the Barings crisis of 1890 as a “turning point in the long-term institutional behavior of British commercial banks.”¹⁰⁴ Specifically, they note that in the years following the Barings crisis, banks shifted from private-sector credit, which is usually riskier, to liquid, public-sector debt. Although the Barings crisis hinged on matters of solvency, it was essentially a liquidity crisis, since many of their assets were “illiquid” and could not be sold quickly. It was thus not unreasonable that after a crisis, banks would stop illiquid, private-sector loans and resort to safer options, such as public-sector debt which was far more liquid and not tied up in long-term projects. These practices and changed norms could also be seen after other historical financial crises, from the Great Depression to the Great Recession in 2008. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 included, among other things, provisions regarding increased financial transparency and capital buffers to avoid a Barings-type situation of bank liquidity problems.

The Barings crisis had reverberations beyond British banks. Other global finance centers began to shift their practices in the hopes of avoiding such a scandal. *Crédit Lyonnais* in Paris expanded their research department after the Barings crisis in the hopes that their own investors would not so severely misjudge the bonds in which they were investing, as Barings did.¹⁰⁵ While Barings seemed to have escaped relatively unscathed with their business and family name saved, albeit bruised, the crisis and bailout ushered in a more permanent change in international finance.

¹⁰³ Eugene N. White, “How to Prevent a Banking Panic: The Barings Crisis of 1890 Revisited,” in *Fed System Conference on Economic and Financial History*, 2016, 10.

¹⁰⁴ Baker and Collins, “Financial Crises and Structural Change,” 433.

¹⁰⁵ Flandreau, *The Making of Global Finance 1880-1913*, 27.

After the crisis in 1890, Barings stayed away from further Argentine investments. The vacuum was filled by J.P. Morgan, whose London branch began to invest heavily in foreign countries, especially in Latin America.¹⁰⁶ Just as the Barings crisis may have embodied the shift between Polanyi's pure market economy to the social economy, perhaps the Barings crisis also marked the eclipse of British banking dominance by powerful, unscathed American bankers. There is a rich opportunity for further research in examining the exact nature of this shift from British to American banking prominence.

The Barings crisis of 1890 and more importantly, the Barings Guarantee Fund, deserve a closer look in economic historiography because of its unprecedented and incredibly influential nature. The head of Lloyd's Bank summarizes the general discomfort after the Guarantee Fund:

Whether such intervention by the Bank of England at such a crisis was sound in principle was in some quarters held to be doubtful; but the danger of the situation was great and urgent. The failure or bankruptcy of Barings would have shaken British credit all over the world, and the result seemed to give full justification to Mr. Lidderdale's courageous action.¹⁰⁷

Howard Lloyd's notes encapsulate the agonizing choices behind a government-led financial rescue of a privately owned banking firm. The alternative "would have shaken British credit," and if everything worked out in the end, did this intervention matter? Notably these questions, choices, and decisions have been acted out in almost every financial crisis since the Barings crisis. Nonetheless, the word "justification" seems to imply that Lidderdale's actions, or central bank intervention more generally, can be criticized, even if none of the London bankers are willing to be the ones who do it.

The communications between the various players associated with the Barings crisis, reviewed in this essay, reveal the true, multifaceted nature of a financial rescue. The Polanyian

¹⁰⁶ Jean Strouse, *Morgan : American Financier* (New York: Random House, c1999), 371, 537.

¹⁰⁷ Baring (ING) Archive, DEP 250, Howard Lloyd Notes 1862-1892.

web of human decisions and emotions, enmeshed with economic motivators and forces, form a negotiation, a conversation, and finally a mechanism for rescuing a financial firm without any one party taking all of the blame: in essence, a bailout. The Barings crisis featured key elements of modern bailouts, such as central bank guidance and action, including constraints imposed over private bank activity, government intervention to ensure systemic solvency, and private bank competition motivated by profit.

The Bank of England's "advertisement" sent out to the London banks asking them to join the Guarantee Fund to rescue Barings reads as a dry, almost typical bond subscription advertisement of the late nineteenth century. Yet by confronting the incentives and motivations behind each of the parties involved in the creation of the Guarantee Fund—whether the Central Bank, the Treasury, or the other private banks—the technical document suddenly gains more complex layers. Darker sentiments which are not normally associated with economic decision-making, such as virulent anti-Semitism or conspiratorial secrecy to protect an elite, come to the forefront. Modern economic historians can gain key insights from the Barings bailout, both as a remarkable historical event and as a precursor to future government or central bank responses to the excessive risk-taking of privately owned banks. As a pivotal event in history, the timing of the Barings Crisis is no coincidence. Again, the economic and financial cannot be separated from the other great forces of history. While many of the left-wing critics of the Barings crisis in 1890 were still on the fringe, by 1900, the Labour Party had been formed and channeled working-class anger at the financial and political elite into political action.

Looking forward, the Barings crisis offers historians and economists vital lessons for the future. A further examination of the nuances and manifestations, both economic and social, which are inherent in all financial crises, can help observers better understand human and

institutional fallibility. Furthermore, whether it is Barings Brothers 1890 or Lehman Brothers 2008, bankers and scholars alike have much to learn on the dangers of excessive risk-taking, and the inevitability of central banks needing to save private banks and the world financial system from collapse time and again.

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