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The last major Irish bank failure before 2008[1]

CORMAC Ó GRÁDA
University College Dublin
cormac.ograda@ucd.ie

Until 2008, Ireland's banks had a solid reputation. Its two long-established banks could trace their origins back to the beginnings of joint-stock banking in 1825. Few banks of consequence had failed in the interim. The last such failure, the focus of this article, was that of the Munster Bank in 1885. That event tells us much about the history of Irish banking before recent events.

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In 2008 the collapse of a banking system which was a byword for stability for almost two centuries brought the Irish economy to its knees. That system, which had its origin in the joint-stock banking legislation of the 1820s, had not experienced a major bank failure since 1885, when the closure of the Munster Bank created a sensation. This article describes that failure and sets it in economic-historical context.

Irish joint-stock banking developed in the wake of enabling legislation in 1824 and 1826. The initial flurry of entrants – the Provincial, Hibernian, Belfast and Northern banks in the 1820s, followed by the National Bank and the Agricultural and Commercial Bank in 1834 and the Ulster and the Royal in 1836 – came to an end in 1838 with the foundation of the Tipperary Bank. That period has been seen, rightly, as the closest Ireland ever came to free banking. For two decades there was free entry, unrestricted note issue, and no formal central bank.[2] The Hibernian Bank was first off the mark in 1825, but the Provincial (like the National Provincial Bank in England, the brainchild of Thomas Joplin) was the most formidable of the new banks.

This was not quite textbook free banking, however, because the Bank of Ireland, established in 1783 on the model of the Bank of England almost a century earlier,

[1] Earlier versions of this article were presented at University College Dublin and Rutgers University. The helpful comments of Michael Bordo, Hugh Rockoff, Eugene White and two referees are gratefully acknowledged. I am grateful to Mary Lambkin and to Desmond Norton for allowing me to cite unpublished material in their possession. The citations from the Court of Directors of the Bank of Ireland are taken from the bank's archives. The article builds on Ó Gráda (2002).

[2] For more on the banking background in this period see Cullen (1979), Ollerenshaw (1987, pp. 31–80), Bodenhorn (1992) and Ó Gráda (1994, pp. 349–65).

retained certain privileges. Most obvious was its monopoly of note issue within 50 Irish miles (or 78 statute miles) of Dublin. Critics linked this restriction to the slow expansion of branch banking within the Bank's monopoly zone after 1825. Competition from the Provincial Bank and the National Bank forced the Bank of Ireland to create 23 branches between 1825 and 1845, but only six of those were 'within the rich and prosperous sphere of Bank of Ireland monopoly' (Royal National Repeal Association 1844, p. 28).

Another difference from textbook free banking is that the Bank of Ireland acted as an informal Irish central bank: on several occasions during this interval it helped other banks out of their difficulties. The Bank of Ireland's role was a function of its special status, as epitomised by its lavish headquarters; in the wake of the Act of Union (1800), it took over the former Irish houses of parliament on College Green as its headquarters. In March 1826, the Provincial Bank sought accommodation for a relatively small sum, which was reluctantly granted; relations between it and the Bank of Ireland were very frosty at the outset. Towards the end of 1836 a much more serious crisis saw the Bank of Ireland helping out all the joint-stock Irish banks to a total sum of £0.5 million (Hall 1949, pp. 142, 162–3). There was further pressure but no casualties in early 1839, when the Bank of Ireland advanced £150,000 to the Provincial Bank and smaller sums to the National and Royal Banks. All of these crises were liquidity rather than solvency crises (compare White 2011). In the following decades the Bank of Ireland would continue to lead Ireland's banking system, and it would play a pivotal role during 1885.

As quasi-central bank, the Bank of Ireland led a banking system that survived even the shock of the Great Irish Famine. However, the system was not entirely failure-proof. Could and should the Bank of Ireland have done more to prevent the few failures that did occur? Did its dual role – commercial bank and lender of last resort – compromise its responses? In what follows I first describe briefly two earlier failures (Section I), before focusing on the rise and fall of the Munster Bank (Sections II, III and IV). I then discuss how the Bank of Ireland as informal central bank acted in 1885 (Section V) and place the failure of the Munster Bank in broader banking-historical perspective (Section VI).

I

Before 2008 Irish banking was a by-word for a rather stolid stability. Irish banking saw only three major failures between 1825 and 2008, and two of those took place before 1885. The Munster Bank's collapse was preceded by that of the Agricultural and Commercial Bank in 1836 and the Tipperary Bank two decades later. These two earlier failures need only a brief description; they have been more fully discussed elsewhere. The Agricultural and Commercial Bank was founded in 1834 with headquarters in Nenagh in County Tipperary (just outside the Bank of Ireland's zone) so that it could issue its own banknotes. It was the brainchild of one Thomas Mooney, a Dublin master-baker (Barrow 1970, 1975; Hall 1949, pp. 158–61), who modelled it closely on the Northern and Central Bank of

England, founded in Manchester a year earlier. Both banks raised their capital through small shares so that 'they might be obtained and held by the poor man'. They targeted the savings of 'Tradesmen, Clerks, Mechanics, Labourers, Servants, and others' by paying the same rate of interest as savings banks (at a time when other banks paid no interest on deposits) and also offered the industrious poor the prospect of 'a temporary loan, when required' (Anon. 1835, pp. 1, 12–13).[3] They built up an extensive branch network within a short period, using local shareholders as managers. Both thus courted not only the business of existing joint-stock banks, but also that of savings banks and loan fund banks. Mooney's bank was everything Ireland's other joint-stock banks were not. Its strategy of going down-market for investors, savers, borrowers and – according to some of its critics – personnel was radical in its day.[4] Indeed, one of its regulations stipulated that no account-holder could deposit more than £500 in total. Over-ambitious and chaotically managed, Mooney's bank was forced to suspend payments on 14 November 1836.[5] Amazingly, all note-holders and depositors were eventually paid back in full, and the bank resumed business, albeit in a small way, between late 1837 and mid 1840.

The Agricultural and Commercial Bank's problems put the entire fledgling joint-stock banking sector under pressure for some weeks, and all were forced to seek help from the Bank of Ireland. As noted, the total advanced by the Bank of Ireland on this occasion was substantial (£0.5 million). Even the Agricultural and Commercial Bank received help to the very modest tune of £24,000, but on 12 November 1836 the Court of the Bank of Ireland decided to provide no further accommodation despite pleas from the Lord Mayor of Dublin and others.[6] In the end the crisis was short-lived and did the reputation of the surviving banks no harm (Barrow 1975, pp. 149–50; Hickson and Turner 2005).

The other major failure before that of the Munster Bank was that of the Tipperary Bank in 1856. Founded in the town of Tipperary in 1838 with a nominal capital of £0.5 million in shares of £50, the Tipperary Bank was run by the brothers James and John Sadleir. The bank came to an agreement with the Bank of Ireland to issue Bank of Ireland notes rather than its own notes in return for a reduced rate of interest on its discounted bills.[7] James managed the bank but John, MP and flamboyant investor, was the brains behind the operation. John Sadleir, aptly dubbed the 'Prince of Swindlers' by James O'Shea (1999), is now best remembered for his

[3] For an introduction to the early history of savings banks in Ireland see Ó Gráda (2003). On loan fund banks see Hollis and Sweetman (2001).

[4] Hall (1949) is particularly scathing of Mooney's project, while Barrow (1970, 1975) deems it before its time. See also Hickson and Turner (2005).

[5] The Northern and Central Bank collapsed in the following year.

[6] The Bank of England also refused to help Mooney's bank.

[7] This arrangement helps explain why the Bank of Ireland had a presence in only two (Carlow and Clonmel) of the nine towns (Carlow, Clonmel, Tipperary, Carrick-on-Suir, Athy, Nenagh, Roscrea, Thomastown and Thurles) in which the Tipperary Bank established branches (O'Shea 1999, p. 484).

sensational suicide on Hampstead Heath on the night of 17–18 January 1856 and his reincarnation as the villainous Merdle in Charles Dickens' *Little Dorrit*.[8]

The Tipperary Bank was fraudulently run almost from the start as a vehicle to fund Sadleir's investment ventures and his gambling on the stock exchange. Yet it successfully maintained a façade of progress and prosperity for almost two decades until Glyn & Company, its London agents, refused its drafts on 9 or 10 February 1856. The news provoked a run on its branches, which the Bank of Ireland tried to quell during the following week by buying up worthless Tipperary Bank drafts, while Sadleir desperately sought the funds that would save him. The Tipperary Bank suspended payments in the following week and officially closed its doors a month after Sadleir's death with liabilities of £430,000 (worth, say, 0.5 per cent of GDP). Assets were reckoned at slightly more, £443,000, but this sum included Sadleir's own overdraft of £288,000. Lawyers were the main beneficiaries of the ensuing litigation about liability; creditors retrieved only £140,000 or 30 per cent of the sum owed to them (O'Shea 1999, pp. 422–3, 463). The problems of the Tipperary Bank forced La Touche's Bank[9] (an old private bank), the National Bank, and the Belfast Bank to seek help from the Bank of Ireland (Hall 1949, pp. 230–1).

The failure of the Sadleir brothers' bank offers a much closer parallel to that of the Munster Bank than does that of the Agricultural and Commercial. Closer still in some respects, as we shall see, was the infamous collapse in October 1878 of the City of Glasgow Bank (Rosenblum 1933; Collins 1989; Acheson and Turner 2008).

II

The Munster Bank began as the National Investment Company in 1864, a vehicle whereby a group of Cork businessmen envisaged mopping up savings and investing them in local projects, mainly related to real estate. This recalls the scenario described by Naomi Lamoreaux in her classic study of banking in antebellum New England (1994), but such 'investment club' ventures were not unusual in Ireland in 1864. The International Financial Society, the Land Securities Company, the General International Agency, and the Alliance National Land, Building and Investment Company were advertised heavily in the national and Cork press. Most likely, these were a slightly delayed response to the joint-stock company legislation of 1862 (Lambkin n.d.). The coterie of Cork businessmen behind the National Investment Company included Nicholas Murphy, James Murphy and former mayor James Lambkin, but the main impetus behind the move was undoubtedly Ulster-born William Shaw (1823–95), who had first moved south to Cork as a Congregational minister but soon switched to immersing himself in the commercial

[8] For more on the Tipperary Bank, its frauds and its demise see Hall (1949, pp. 186–8, 224–31), O'Brien (1977), O'Shea (1999) and House of Commons (1856).

[9] Sold as a going concern to the Munster Bank in 1870 (Hall 1949, p. 258).

life of the city. He would eventually (in 1868) become an MP, and very briefly leader of the Irish Home Rule party.

John Francis Maguire, founder of the daily *Cork Examiner* in 1841, had been making the case for some time before the establishment of the Munster Bank that Irish economic development was hindered by an inadequate banking system. Ireland – and Munster – needed 'liberal' rather than 'discouraging' banks, whereby, as in Scotland, 'the enterprising manufacturer is fostered and encouraged' (cited in Lambkin n.d., p. 7). Perhaps, but the Munster Bank's initial prospectus hardly reflected such sentiments. It focused on making advances on land, buildings, freights and merchandise, 'as well as villa residences', and purchasing and leasing sites in the Cork area.

Over the summer of 1864, the initial strategy of attracting funds for the purchase of real estate broadened into one of seeking investments in 'bottomry' (laden ships bound for or temporarily held in home ports) and receiving deposits at interest. In August 'a large and influential meeting of shareholders' agreed that the new company combine banking and investment operations, and in mid October the new project changed its name to the Munster Bank, determined to 'open current accounts, discount bills, and transact the ordinary business of banking' (Lambkin n.d., p. 13).

Although the Munster Bank was resolutely regional in ambitions and ethos, and built largely on Cork capital, by the early 1880s half or more of its shareholders lived outside Munster (Munster Bank Limited 1885). And although it concentrated its business on the province of Munster, its branch on Dublin's Dame Street was its second busiest. By the 1870s it held 7–8 per cent of all Irish bank deposits, a share it maintained till the end (Figure 1). It developed quite an extensive branch network, venturing where no joint-stock bank had ventured before, into small towns and even villages. A high proportion of its branches were located in insignificant small towns and villages. Thus whereas only 8.6 per cent of Bank of Ireland

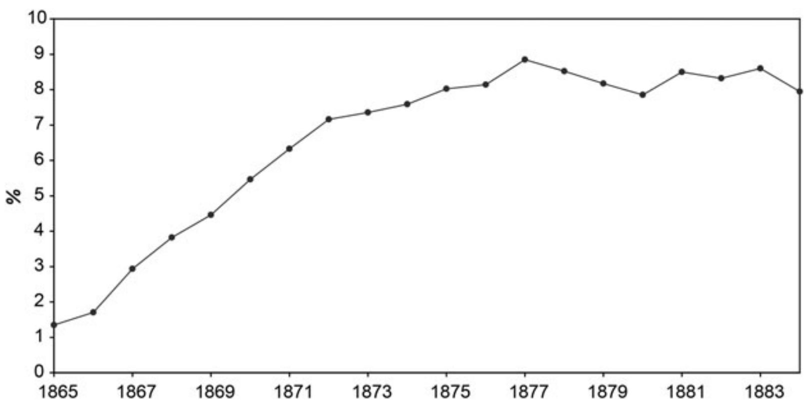

Figure 1. *Munster Bank's share of Irish bank deposits, 1865–1884*

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branches were located in towns of less than two thousand inhabitants in 1881, 35 per cent of Munster Bank branches were to be found in such places. At the time of its failure the Munster Bank had branches in villages such as Kildysart (County Clare), Hospital (County Limerick), Dunlavin (County Wicklow), Kilfinane (County Limerick) and Tarbert (County Kerry) – all with populations of less than a thousand in 1881. It also opened branches in places where there was already the branch of another bank, and provoked rival banks into extending their networks.

How profitable some of these branches were is impossible to say. Yet applying a solution to the so-called 'tank number problem' to unpublished lists of Munster Bank depositors with dividend payments still unclaimed three years after the bank closed its doors implies that some were very small indeed. During World War II both Allied and German intelligence sought to infer enemy weapons production from serial numbers on captured materiel. The strategy worked as follows. Suppose the serial numbers on enemy tanks were 1, 2, 3, …, N, where N was unknown. The problem then was to estimate N from a random sample of $X_1, X_2, X_3, \ldots, X_n$, of size n. There are several plausible estimators of N but the 'best' (in the sense of being unbiased and minimum variance) turns out to be $[(n+1)/n]\ X_n$ (Ó Gráda 2002). Applying this estimator to data in lists of depositors still owed money three years after the collapse of the Munster Bank[10] implies that Tarbert and Hospital are unlikely to have had more than 100 depositors, and that several others would have had less than 200.

The Munster Bank also sought the business of people who probably had not banked much previously. As the chairman put it to a shareholder in January 1877, when the bank was riding high:

> He would take [him] any day he pleased to one of their country branches and he would show him a sheaf of bills it would take him a long time to count, ranging from £10 to £100, on a great many of which the farmers had not been able to sign their own names, being of the class that could not read or write. It would be impossible to use the system of cash credits and overdrafts in cases like these. If they gave out a cheque-book it would probably disappear through a big hole in the farmer's frieze coat. When they met a man who had a good holding and security, and who wanted money for six or eight months, they never refused him… No one ever heard yet of them sending an attorney's letter to any one if he was an ordinary good man, and it was a very common thing to have those bills paid before they were due. (*Freeman's Journal* (henceforth *FJ*), 26 January 1877)

The Munster Bank built up business partly by paying a generous return on deposits, just as the Tipperary Bank had done.[11] It rattled its rivals, but the extra competition

[10] I am grateful to Desmond Norton for access to the original document containing the data. In the Hospital (County Limerick) branch, for example, account numbers 43, 54, 55 had still not been repaid. Thus for Hospital, the 'best guess' is [4/3].[55] = 73. On solutions to the tank number problem see Johnson (1992).

[11] It advertised its rates in the press. Thus in November 1872 it was paying 5% on deposits, in December 1874 4% (*FJ*, 16 November 1872; 17 May 1873; 20 December 1874).

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can only have benefited consumers. The Bank of Ireland, which had been lax about expanding its branch network, responded by creating branches in Clonakilty and Listowel in 1870, and in Charleville, Midleton, Skibbereen and Mallow in 1876-7. Since all of these new branches were in Munster, this greatly irritated the Munster Bank, but it should be noted that Bank of Ireland had responded in exactly the same way in 1825 (in the wake of the creation of the Provincial Bank) when it opened seven new 'agencies' (i.e. branches), and in 1834–6 (after the foundation of the National Bank) when it opened 10 more (see Table 1). Another grievance of the Munster Bank is that it operated at the disadvantage of being a non-note-issuing bank, something it tried, unsuccessfully, to remedy in the 1870s. In evidence to a select parliamentary committee on banks of issue, Shaw claimed that his bank kept over £300,000 of Bank of Ireland notes in circulation, while a colleague claimed that the privilege of note issue brought advantages in the form of profits and extra business (*FJ*, 4 June 1875; Hall 1949, pp. 261–2).

III

For over a decade the Munster Bank grew and prospered. The Irish economy was buoyant and bank deposits and note circulation generally grew (Ó Gráda 1994, pp. 237–72; O'Rourke 1998). However, the monthly *Irish Banker* began sounding the alarm about the Munster in February 1877 when it noted a sharp fall in the bank's liquidity position. In August 1878 it claimed that the bank should be holding about twice its then amount of convertible securities, and it was critical again in January 1880. In March 1881 the *Irish Banker* sounded a more reassuring note about the bank's liquidity, but it ceased publication before the Munster Bank's situation became really critical.

There are signs too that from 1878 on some Munster Bank directors were beginning to worry about how the bank was conducting its business. The bank was in

Table 1. *Bank of Ireland new branches opened, 1825–1904*

Period	Branches	Sub-offices	Total
1825–34	16	4	20
1835–44	7	5	12
1845–54	1	1	2
1855–64	6	3	9
1865–74	19	18	37
1875–84	10	6	16
1885–94	0	0	0
1895–1904	8	2	10

Source: Derived from Hall (1949, pp. 405–8).

effect being run by Shaw, manager James Belton, and co-director Nicholas D. Murphy. At the January 1879 shareholders' meeting – following disclosure of some bad debts – Shaw promised that 'in future the entire business of the Bank must be under the control of the entire Board'. 'Therefore', he continued, 'I have insisted that the Board should be associated with me in the daily investigation of any business in Cork that requires investigation…'[12]

Rumours regarding directors' borrowings had been circulating since 1881. At the shareholders' meeting of 25 January 1883 Shaw referred to them as follows:

> The statements are, I believe, that some of the Directors are largely overdrawing their accounts without security and that the Bank is in a very serious position now with those Directors. I now assure you here publicly that there is not the slightest foundation for any such statement…I have stood here without thinking of remuneration for myself for 19 years now and I have never been absent from any Bank meetings save one.

Shareholders' meetings from 1883 on were tense or stormy affairs. At the July 1883 meeting Shaw acknowledged the existence a group of Dublin-based shareholders led by Sir Robert Jackson, Thomas Fitzgerald CE, John McSheehy (law agent to Dublin corporation) and Hugh Tarpey JP, long-time member of Dublin corporation and lord mayor in 1877–8. These extremely well-connected, affluent and influential gentlemen were very unhappy with the bank's management. Their main worry was the fear that directors had been breaching the rule (which had stood since the outset) that no loans be made to directors except on adequate security (*Irish Times* (henceforth *IT*), 26 July 1883; 27 July 1883).

Unhappily for the Cork directors, the Jackson group persuaded two directors not based in Cork, Edmund Dease and Robert La Touche, to assess the situation informally, and in July 1883 these two reported their unhappiness with the securities for several directors' overdrafts to McSheehy and Fitzgerald. Dease and La Touche seem to have been 'outsiders' on the Munster Bank's board, and so not privy to everything that was going on. Subsequent investigation by shareholders' representatives suggested that 'sums to a very large amount' had been lent to directors on inadequate security.

On 7 November 1883 Tarpey in Dublin received a letter from J. H. Belton in Cork, which stated that the Munster Bank's directors intended to seek an amendment to the clause prohibiting insider lending on personal security only. The draft amendment proposed that such loans not be granted 'unless the Board, without a division, by an entry in their minutes sanction such advance or credit'. Belton's brazen move outraged the Dublin shareholders. They sought an injunction against the bank in the court of vice chancellor Hedges Eyre Chatterton (*IT*, 31 January 1884). They were successful in this immediate objective and obtained an order preventing the proposal of a resolution repealing an article forbidding 'that Directors of the Bank or firms in which Directors were interested should receive advances or be permitted to draw on

[12] Lambkin (n.d., p. 59); *IT*, 31 January 1879.

overdrafts without lodging full and sufficient securities' (Lambkin n.d., p. 67; *IT*, 2 February 1884). This forced Shaw to concede in front of shareholders that the directors would not proceed with the proposed change regarding directors' loans, while insisting that 'he might say for himself that his account was perfectly well secured and that of any concern with which he was connected was also perfectly secured. His property was pretty well known and where it was – he could not walk away.' And he added, in *faux* valedictory mood:

> I fell into the way of doing everything in the outside world in the way of working the Bank and the establishment of branches and in the purchasing of business. I was constantly employed and probably the thing could not have grown if there was anything like division or a divided council. Having existed for 20 years I think now it would be unwise for the Bank to continue in this one-man system. I now believe that the very best thing for the Bank…will be that I should retire and allow the Directors generally to take a more active part in the management of the Bank.

The Dublin shareholders' group had placed three demands before the first shareholders' meeting of 1884. First, they sought the removal of the bank's manager in Cork, J. H. Belton, from the board. Second, they sought the appointment of an additional professional auditor and, third, they demanded that shareholders' meetings alternate between Dublin and Cork. Only the second proposal was accepted (and a Mr Gardner of Craig Gardner appointed), although Shaw conceded that he might not oppose the idea of alternate meetings in Dublin 'when they were not being kicked and cuffed about by some of the Dublin shareholders' (Lambkin n.d., p. 68).

In March 1884 the Jackson-led group, increasingly alienated and worried, brought suit against directors of the Munster Bank at the vice chancellor's court, charging that loans had been made to directors and ex-directors on inadequate security. At the next shareholders' meeting in July 1884, Shaw offered his resignation. At the same meeting, without elaborating much but to the consternation of some shareholders, he announced the transfer of £75,000 from reserves to the Bad and Doubtful Debts Account (*IT*, 1 August 1884). The uncertainty affected account-holders' confidence and in 1884 deposits fell by £250,000. Then on 20 November 1884, Shaw quietly filed a claim for £40,000 in the Court of Chancery in London for his services to the Munster since 1884, presumably to counter charges of borrowings by him and colleagues. This move, which came out of the blue, did not come to light until January 1885.

Edmund Dease, a relatively new and inactive board member, was appointed to chair the January 1885 shareholders' meeting, at which Nicholas D. Murphy, co-founder and a Shaw loyalist, tendered his resignation from the board. That fraught meeting would prove to be the bank's last (*IT*, 30 January 1885). In the following months the Munster was in repeated contact with the Bank of Ireland about its plight. But worse was to come.

In their very brief report to shareholders at the January 1885 meeting, the directors were 'glad to be able to announce that subject to the sanction of the Court arrangements have been entered into under which the questions under dispute can be determined without any further litigation'. However, on 26 June the legal action of the

Dublin shareholders culminated in a judgment whereby the defendants were to be held liable for advances obtained in contravention of the Bank's Articles of Association. The vice chancellor, Hedges Eyre Chatterton, declared Shaw's statement to shareholders in January to have been 'as false a statement as ever was made'. Chatterton's verdict would prove the Munster Bank's death blow (*IT*, 13 January 1885, 27 June 1885; *Cork Examiner*, 15 July 1885; *Limerick Reporter*, 17 July 1885; *FJ*, 15 July 1885).

On 2 July a letter to the Bank of Ireland directors signed by three Munster Bank directors not directly implicated in the vice chancellor's decision (Edmund Dease, J. W. Payne, James J. Murphy) stated that the legal proceedings 'relating to the advances to some of our directors in the past' had led to a withdrawal of deposits in Munster. This meant that the Munster Bank was 'not only unable to reduce our account with the Bank of Ireland, as we had fully intended to do at this time, but we are under the necessity of applying to you for further assistance'.

The letter referred to the puzzling buoyancy of Munster Bank shares, 'which are now being freely bought at largely enhanced prices' (see Figure 2). This suggests that there may have been well-informed 'insiders' and poorly informed 'outsiders' among the investing public as well. Still, Munster Bank shares had been falling relative to those of other banks since 1878, with the exception of those of the Provincial Bank, and they fell relative to other bank shares (represented in Figure 2 by the National Bank) in the first half of 1885 also.

IV

Given the Bank of Ireland's status as lender of last resort (LLR) to the Irish banking system, its role in the Munster Bank's demise is of considerable interest. The

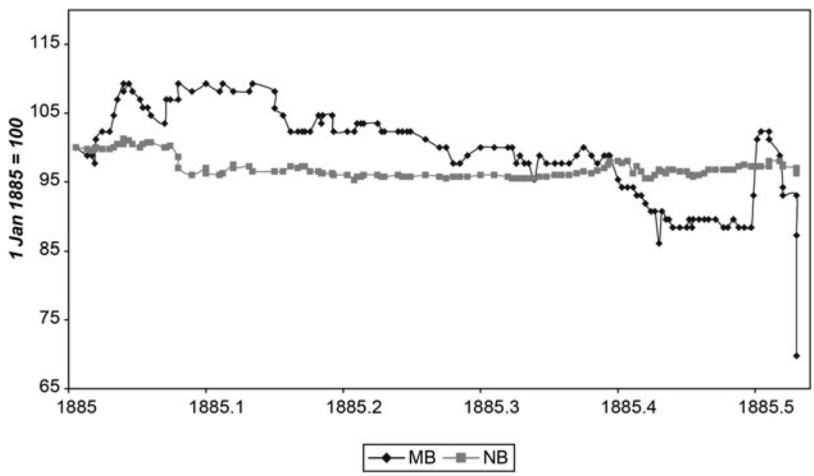

Figure 2. *Munster and National Bank share values, 1885*

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concept of LLR dates back to English merchant banker Francis Baring ([1797] 1967), but received its mature, classic articulation in Henry Thornton's *Paper Credit of Great Britain* (1802) and in Walter Bagehot's *Lombard Street* (1873). Both Thornton and Bagehot were practising bankers. Thornton's fear was contagion, i.e. that 'If any bank fails, a general run upon the neighbouring banks is apt to take place, which if not checked in the beginning by a pouring into the circulation of a very large quantity of gold, leads to very extensive mischief' (Thornton 1802, p. 182). And the solution: 'If the Bank of England, in future seasons of alarm, should be disposed to extend its discounts in a greater degree than heretofore, then the threatened calamity may be averted.'

Bagehot's work was partly in response to the failure of Overend Gurney, a wholesale discount bank, in May 1866 with liabilities of over £10 million, a failure which had serious ramifications for the banking system and the British economy more generally. The Bank of England decided in its wisdom that Overend Gurney was beyond redemption. Letting it fail would cause some panic, but that was a price to pay. The panic could be alleviated through monetary easing. Gladstone agreed to allow the Bank to increase the amount of money in circulation, subject to the stipulation that bank rate be raised to 10 per cent, while letting Overend Gurney sink. The crisis proved short-lived.

The Overend Gurney crisis had repercussions in Ireland, however. La Touche's Bank requested an overdraft of £50,000 of the Bank of Ireland; the Royal Bank and the Hibernian Bank asked for £50,000 each, and the Munster Bank for £30,000. The relatively small Union Bank of Ireland was a casualty; its branches were sold off to the Munster Bank and the Hibernian Bank before it went into voluntary liquidation (Hall 1949, pp. 250–1). The Union Bank's depositors got their money back eventually. Shareholders who had been induced to part with more of their cash not long before the end – and at a time when the directors knew the writing was on the wall – lost their entire investment. The 'Bagehot Principle' has become part of monetary orthodoxy. But some critics have objected that the presence of a LLR creates moral hazard (e.g. Rockoff 1986; White 1984).

Another feature of the Bank of Ireland's role in 1885 recalls a dilemma highlighted in Charles Goodhart's *The Evolution of Central Banks* (1988). Goodhart proposed that central banks as institutions evolve naturally because they fulfil a natural function. The private bank that doubles up as a quasi-central bank, to which other banks resort when they are in trouble, cannot fulfil this function properly since it faces a conflict of interests between its public service and commercial roles.[13] This would seem to have applied to the Bank of Ireland, acknowledged LLR to the other Irish banks, but also a commercial rival. The private-public bank, Goodhart argued, must choose eventually one route or the other. Thus the Bank of England would in the end become a public institution, while the Bank of Ireland would opt instead to

[13] In the case of the Northern and Central Bank in 1834, Thomas Joplin complained that 'had the Bank [of England] been guided solely by public principle, they would have acted more justly' (Joplin 1837, p. 121).

become an outright commercial bank. But for decades, the special privileges of the Bank of Ireland rankled with other banks, though they accepted them in return for the security that the Bank of Ireland provided.

Before 1885, the Bank of Ireland had frequently acted as LLR, especially in 1826, 1836, 1839, 1847, 1857 and 1866 (Hall 1949; Munn 1983). It did not do so indiscriminately, however. How it reacted to the Munster Bank's difficulties in 1885 bears on the issues raised by critics of the principle of LLR and by Goodhart.

On Christmas Eve 1884 the Bank of Ireland wrote to the Munster Bank expressing concern at the latter's overdraft with it exceeding the agreed amount. There followed repeated requests from the Munster Bank followed by concessions from College Green (Hall 1949, pp. 282–8). There was much to-ing and fro-ing between the Munster's branch on Dame Street and nearby College Green, with Robert Farquharson, the co-manager in Dame Street, playing the lead part for the Munster. The Munster Bank features constantly in the Court minutes in the first half of 1885. In the end the Bank of Ireland gave up on it. On 3 July it made what would prove its final concession:

> Dear Sirs
>
> In an anxious desire of meeting the severe pressure under which the Munster Bank is at this moment labouring the Governors and Directors of the Bank of Ireland are prepared to accede to the final request put forward by the Munster Bank, in their letter of the 2nd Inst, and will agree to extend, during the pleasure of the Governors and Directors of the Bank of Ireland, the amount of the advance made to a total of £400,000 on the securities now held (including bills viz. £20,000 as offered yesterday). The Directors of the Munster Bank understanding most distinctly that under no circumstances whatever will the amount be permitted to exceed the sum above named, viz – Four hundred thousand pounds.

The court of the Bank of Ireland met almost daily as the crisis worsened. On 9 July they expressed their 'deep concern' at the rise of the overdraft to £402,802, above the limit stipulated six days earlier. It issued a final warning that unless the overdraft was reduced immediately below the limit stated, all credits allowed under the agreement of 15 January would be withdrawn and cheques above the permitted overdraft refused. Then on 11 July, in the wake of an interview with the Munster Bank's joint managers in Dublin, the Bank of Ireland passed its death sentence in a letter to J. H. Belton. The Bank of Ireland decided that 'with due regard to the interests of their own Proprietory… to withdraw from the several branches of the Bank of Ireland the credits as advised in my letter of 19 January 1885 and to state that no cheques of the Munster Bank will be honoured which shall be in excess of the limit stated'.

That was the end, although the Munster did not close its doors immediately. The value of bank stock fell in anticipation (Figure 2). But why did it not plummet towards zero? Perhaps rumours of a rescue package kept some hopes high, or perhaps the truth was kept a secret. A further possibility is that insiders were using bank funds to support the stock price. There is no hard evidence for this, but it happened in the case of the

City of Glasgow Bank in 1878, and the practice was made illegal under the common law in 1887.[14] On the evening of 14 July 1885 the Munster closed its doors.

V

There were the usual queues of concerned depositors but only one riot, which took place outside the tiny branch in Kildysart in County Clare (*Clare Journal*, 16 July 1885; *Clare Independent and Munster Advertiser*, 18 July 1885; *The Nation*, 18 July 1885). Two days after the bank closed its doors, at a public meeting presided over by the mayor of Cork William Shaw contended that he could get the bank back on its feet with a loan of £200,000 in London on the bank's securities. A committee was formed to re-establish the bank. On the same day the mayor sent telegrams to the city's two MPs, Charles Stuart Parnell and Thomas Sexton, requesting that the Irish Party seek government help to save the shareholders and depositors. There were calls for the government to place pressure on the Bank of Ireland. Others, however, wanted nothing more to do with William Shaw, and called instead for a clean start.

On 20 July 1885 Sexton, on behalf of Parnell, asked Mr Chancellor of the Exchequer in the House of Commons (*House of Commons Debates*, 20 July 1885, vol. 299, cc1210–1):

> in view of the monetary situation created in Ireland by suspension of payment on the part of the Munster Bank, and considering that the Bank of Ireland enjoys special facilities under the Law, and exceptional advantages from the Government, and has at its disposal unused note-issue power to the extent of above a million sterling, whether the Government will use its influence to cause the Bank of Ireland to assist the Munster Bank to recover its position, and thus avoid liquidation, if the different classes of persons interested in this Bank as depositors and shareholders should undertake to do their part, and the affairs of the Bank should be found in a condition to warrant assistance from the Bank of Ireland?

On the following day the Bank of Ireland rejected the Munster Bank's shareholders' committee's request for a loan of £0.5 million, which was linked to an undertaking that depositors would not withdraw their deposits without six months notice. The Bank of Ireland agreed to consider advancing £0.25 million if the shareholders paid up the call of 30 shillings for which they were now liable, but only if the condition regarding deposits 'could be legally carried out'.[15]

The *Cork Examiner* (30 July 1885) complained that in allowing the Munster Bank to fail the Bank of Ireland had been motivated by 'the treacherous desire to grasp at the business of a rival concern'. Parnell too surely shared the suspicion that the demise of its rival suited the Bank of Ireland. At the public meeting on 16 July William Shaw had complained that the Bank of Ireland's stance 'was only in keeping with the attitude which [it] had assumed towards them, not yesterday, but for a considerable time'.

[14] I am grateful to a referee for raising this point.

[15] Bank of Ireland Archives, Minutes of the Court of Governors, 21 July 1885.

The common perception – not entirely unjustified – that the Bank of Ireland was a 'unionist' bank did not help in the circumstances either. Chancellor of the Exchequer Sir Michael Hicks-Beach replied diplomatically to Parnell (*House of Commons Debates*, 21 July 1885, vol. 299, cc1407–8):

> The hon. Member has asked me a Question to which I could not give an affirmative reply without the risk of raising hopes which, so far as I see, could not be realized; but I may say that, in my opinion, the exceptional position of the Bank of Ireland entails upon it at times such as these special duties, and I have good reason to believe that this is recognized by the Directors of the Bank, and that they are ready to help in promoting the very desirable object referred to by the hon. Member, so far as may be possible consistently with due regard to the safety of the Bank.

The Bank of Ireland, somewhat embarrassed by the public outcry, protested to Hicks-Beach that it had done what it could, and that it was exercising its LLR function in saving another bank, the Hibernian Bank. In a letter to Hicks-Beach on 22 July it conceded his statement 'that the position of the Bank of Ireland entails upon it at such a time as the present exceptional duties', but held that 'their action in the past years under similar circumstances' was fully consistent with those 'discharg[ing] whatever these duties may be', and that their action towards the Munster Bank also recognised those duties 'consistent with their first duty to their own Proprietors and the public at large'. It included copies of its correspondence with the Munster Bank earlier in the month in this letter.

When it became clear that the Bank of Ireland was not going to help, discussion turned from resuscitation of the Munster Bank to the creation of a new bank on the basis of what was good of the old. The outcome was the creation, within an amazingly short period, of the Munster & Leinster Bank. The new bank opened for business on 19 October 1885, beginning cautiously with its premises in Cork and Dublin and in nine other places. More branches were opened in the following months, on the basis of their having been profitable in their previous existence as Munster Bank branches. By 1894 the new bank had added four branches to its network (Maryborough, Buttevant, Lismore and Waterford) but had not reopened the branches in Cahir (with an estimated 174 Munster Bank depositors in 1885),[16] Cashel (52), Clonmel (212), Ennis (202), Ennistymon (249) or Queenstown (104), all of which had a rival bank presence. It had also added eleven sub-branches and closed four.

The bank's balance sheet when it closed its doors is described in Table 2. At first sight, this does not seem so bad; the apparent surplus exceeded the capital (£525,000) and reserve (£200,000). However, many of the assets were bad debts; Shaw had overdrawn to the tune of over £120,000, and Belton and Murphy owed over £20,000 each (*FJ*, 27 June 1885, 30 June 1885; *Cork Examiner*, 27 June 1885).

[16] Using the 'tank number' solution outlined in note 10 above. The data are taken from the same document mentioned there.

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Table 2. *Financial weak position when bank failed on 14 July 1885*

Assets		Liabilities	
Cash on hands and at bankers	£205,530	Deposit accounts	£1,461,177
Government stocks	£300,000	Current accounts	£704,445
Bills discounted	£1,316,228	Bank of Ireland (fully secured)	£410,743
Current accounts and loans	£1,424,442	Union Bank of London (do.)	£98,006
Bank premises	£100,000		
Defalcations and gold robbery	£89,230		
Total	£3,435,430		£2,674,371
Nominal surplus			£761,060

Source: Munster Bank, Liquidation Book.

The liquidators predicted that 'extremely heavy losses' on many accounts would transform 'the seeming surplus into a heavy deficiency'. A call of £2 on shares was necessary; this should have yielded £300,000 but, given the financial ruin of many shareholders, less than £200,000 had been produced by September 1886. The liquidators worked hard at realising the bank's assets, but in the end £735,000 of the Munster Bank's debts were written off, the bulk of which had been incurred in Cork (£306,000) and at the Dame St office in Dublin (£266,000). The shareholders lost all their investments. 'One of the saddest circumstances', wrote the liquidators, 'in connection with the Liquidation is the number of Shareholders who had invested the savings of years, in some cases of a whole lifetime, in the shares of the Bank, and who were rendered by its failure, even irrespective of the subsequent call on the shares, absolutely or very nearly penniless, and against whom, therefore, any legal proceedings would be fruitless' (Munster Bank n.d.).

On the day after the Munster Bank's collapse an editorial in one of Ireland's main newspapers quipped that if a bank director's 'securities are good, then he should be able to borrow elsewhere' (*FJ*, 15 July 1885). The judgment was apt: in Ireland in the 1880s the banking system was such that the capital requirements of business were adequately catered for. As it turned out, the Bank of Ireland, as quasi-central bank and LLR, probably did too much rather than too little to help the Munster Bank, and probably should have pulled the plug sooner.

VI

There was an added sting to the tale. Ten days after the bank's closure, Robert Farquharson, manager of the main Dublin branch of the Munster Bank, defalcated to the tune of nearly £90,000 and absconded. The police traced him to a Dublin railway station, where the scent evaporated. *Hue and Cry* discontinued its weekly entry on Farquharson roughly a year after he disappeared. The Munster Bank's liquidators forced him into bankruptcy but this yielded them little. Their investigations confirmed that Farquharson had been embezzling the bank since the early 1880s, though on a relatively small scale compared to his final grand theft.[17]

None of the Munster Bank's directors ended up in jail in the wake of the failure, but the liquidators had Shaw, Belton and Nicholas Dan Murphy declared bankrupt. Shaw owed them £130,000 against securities valued at £41,000 (*IT*, 16 September 1886). He owed this money on his own behalf and on behalf of several companies of which he was a director. His main cronies on the board, Nicholas Murphy, J. W. McMullan and J. H. Belton, owed sums on behalf of companies of which they were co-directors with Shaw. Some other directors – Perrier, Dease, La Touche – seem to have been 'outsiders' (or not 'related' in the sense of Maurer and Haber (2007) – see below), and it is surely no coincidence that two of these confided in the Dublin shareholders.

Shaw's death and burial in Enniskerry a decade after his bank's demise passed almost unnoticed. In an obituary in *Freeman's Journal* he was described as 'Sensible Shaw' (21 September 1895), but Lambkin (n.d., p. 74) wrote of him that he had 'become reluctant to allow it to be said that he refused loans to his friends'.

The sensational collapses of the Tipperary Bank in 1856 and the Munster Bank in 1885 highlight how in nineteenth-century Ireland canny 'insiders' could dupe their shareholders and depositors for extended periods of time. In this respect the Munster Bank resembled more the 'looting' banks depicted by Akerlof and Romer (1993), La Porta, Lopez-de-Silanes and Zamarripa (2003) and Maurer and Haber (2007) than the benign New England institutions described by Lamoreaux in her classic *Insider Lending* (1994).

The failures of the Tipperary and Munster banks imply an inadequate supervisory regime, despite the availability of the legal remedy used by the watchful group of Dublin shareholders. Yet a remarkable feature of the story is how little lasting damage the collapse of the Munster Bank did to anybody except to the directors and shareholders. Depositors were ultimately repaid, and subsequent movements in the shares of other Irish banks show that there was no contagion and no fear of systemic collapse. After an admittedly hesitant start, within weeks enough promises of

[17] Ó Gráda (2002). Farquharson's disappearance grabbed press headlines for several days (see e.g. *IT*, 30 July – 4 August 1885, passim; *Cork Examiner*, 31 July, 1 August 1885). The Farquharson scandal generated a doggerel ballad, 'A New Song on Farquharson and the Munster Bank', the first verse of which runs (Anon. 1885):

The stoppage of pay is the talk of the day
With every class and rank,
And the money they lost through the robber that bossed
The great big Munster Bank.
No Irishman could pay the plan
Of robbing that he did
But on Scotland's shore, we knew before
There was many a knavish kid.

support had been garnered from investors, mainly in Munster, to enable the registration on 19 September of the new bank mentioned above. The new bank prohibited directors from holding accounts in it, and was unencumbered by some of the baggage accumulated by the Munster Bank in the form of uneconomic branches and overstaffing. A smooth transition was guaranteed by the liquidators, who included James Jeremiah Murphy, its first chairman.[18] The best of the old was maintained in the form of branches, managers and other staff.

The story of the Munster Bank has certain obvious resonances for the recent history of Irish banking.[19] Shaw, Nicholas Dan Murphy and Farquharson have their modern counterparts in disgraced Anglo Irish Bank personnel. The insider lending that brought down the Munster Bank also damaged Anglo Irish Bank, leading to the bankruptcy of its managing director and chief executive. But whereas the banking innovations introduced by Anglo Irish Bank led to systemic failure, in 1885 there was no contagion.[20] The vehemence of vice chancellor Chatterton's verdict, as well as the adverse press and other publicity given to the role of individual directors, set the Munster Bank apart from the rest of the system. Thus the failure of the Munster also caused far less economic damage that that of the City of Glasgow Bank seven years earlier. Not only did the latter failure also involve huge loans on inadequate security: it entailed gross falsification of accounts and the consequent arrest and imprisonment of directors in addition. Another difference is that while the Munster Bank's shareholders mourned the loss of their investments, their Glasgow counterparts fared worse, having to face the 'full realities of unlimited liability' (Hall 1949: 265). And because the sums involved were ten to twelve times greater, the failure of the City of Glasgow Bank had serious ramifications for economic activity in Glasgow. It also encouraged those banks who had not already done so to switch to limited liability and to accept the need for independent auditing of accounts (Acheson and Turner 2008).

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[18] On Murphy's leading role see Ó Drisceoil and Ó Drisceoil (1997, pp. 11–13).

[19] A good introduction is Ross (2009).

[20] As noted earlier, there was no link between the Munster's problems and those facing the Hibernian Bank in 1885.

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