

"This city, indeed the entire of the South of Ireland, has sustained a calamity which almost completes the climax of its distress, by the failure of one Bank, and the stoppage of another. These misfortunes occurred this morning and it would be in vain for us to attempt to depict the scene which the city has exhibited ever since."

Black Thursday: When **TWO** Cork city banks failed

THAT report, from the *Freeman's Journal*, gives a flavour of the financial earthquake that struck Cork city 200 years ago next year. At 10.30am on Thursday, May 25, 1820, the Cork bank of Messrs Stephen and James Roche, one of the largest and most respected private banks in the south of Ireland, stopped issuing payments and closed its doors.

Minutes later, another private Cork bank, Leslie & Company suspended payments.

Between them, the two are thought to have accounted for more than 80% of all bank notes circulating in Cork and Kerry at the time. At a stroke, their notes became worth a fraction of their nominal value.

To lose one bank could be regarded as misfortune, to lose two on the same day could be described as more than careless...

At noon, the city's panicked merchants convened to discuss the situation, and at 3pm a notice was issued in an attempt to stall the jitters — Leslie & Co. were solvent and the merchants would inspect their books.

However, it had no effect. Later that day, the remaining two Cork banks — Newenham's and Pike's — also suspended business temporarily leaving Cork city without any banking facilities whatsoever for a period.

This was a collapse that was unprecedented in financial circles, one of the biggest banking crashes in modern Irish history.

As the *Freeman's Journal* noted: "The crisis to which the city is reduced is a trying one — one indeed which we cannot contemplate without great pain and apprehension."

The *Cork Southern Reporter* headline simply declared it a "Calamity in Cork".

Private banking at the time was more about issuing notes than taking deposits, so the 1820 crash wrought severe damage to the payment system and to trade.

The panic, although initially confined to Munster, quickly spread to Dublin and the crisis ultimately led to the closure of half of Ireland's banks.

To understand what happened, we first need to consider the economy of the day. The French Revolutionary and Napoleonic wars had heralded a 30-year trade boom in Ireland, during which its economy grew fivefold — the first Celtic Tiger, if you like.

But the new era of peace after the Battle of Waterloo in 1815 brought financial uncertainty, especially in agricultural prices, and Cork therefore was particularly badly hit.

War prosperity had disguised the weaknesses of the Irish economy and many banks had lent based on the high value of land as security. Now, with the fall in agricultural prices, land

values fell too. Although there was some recovery, by 1820 prices were still 60% that of 1813. James Roche, in evidence to the bankruptcy proceedings, attributed the failure of his bank to the difficulties experienced by merchants in preceding years.

In truth, it was poor property loans that had done for the bank, whose creditors ultimately got back around a fifth of what they were owed.

The immediate impact of the crisis was felt in the contraction of the money supply in and around Munster. Paper money became scarce and this had an immediate impact on trade and employment in the region.

There was another element that exacerbated the 1820 crisis: Poor legislative framework.

The Bank of Ireland, modelled on the Bank of England, had been chartered by the Irish parliament in 1783. It was given a monopoly on joint stock banking in Ireland, and had a geographic monopoly on note issuing within a 65-mile radius of its Dublin headquarters.

The Bank of Ireland's charter had given it a monopoly on joint-stock (multiple shareholders) banking; no other banking company of greater than six people was allowed to issue notes payable on demand.

This meant the capital of the private banks — those with six or fewer partners — in the 1820 crisis was limited to the partners

of the bank, and they had an unlimited liability for the debts outstanding.

Even though the Bank of Ireland had a monopoly on joint-stock banking, it did not open branches outside of Dublin, so when the private banks suffered in 1820, there was no alternative payment system to utilise.

The Bank of Ireland emerged relatively unscathed from the crisis, as can be seen from its stock price, which experienced relatively little volatility. Indeed, viewing its share price, one would be unaware there was even a severe banking crisis in May, 1820.

The Bank had made a dividend declaration on June 15 that meant buyers of the stock were not entitled to a dividend paid out on July 1, but despite this, its share price soon returned to pre-crisis levels.

Another key event was the suspension of the Gold Standard

in 1797, which put on hold payment on demand of bank notes for gold, lasting until 1821.

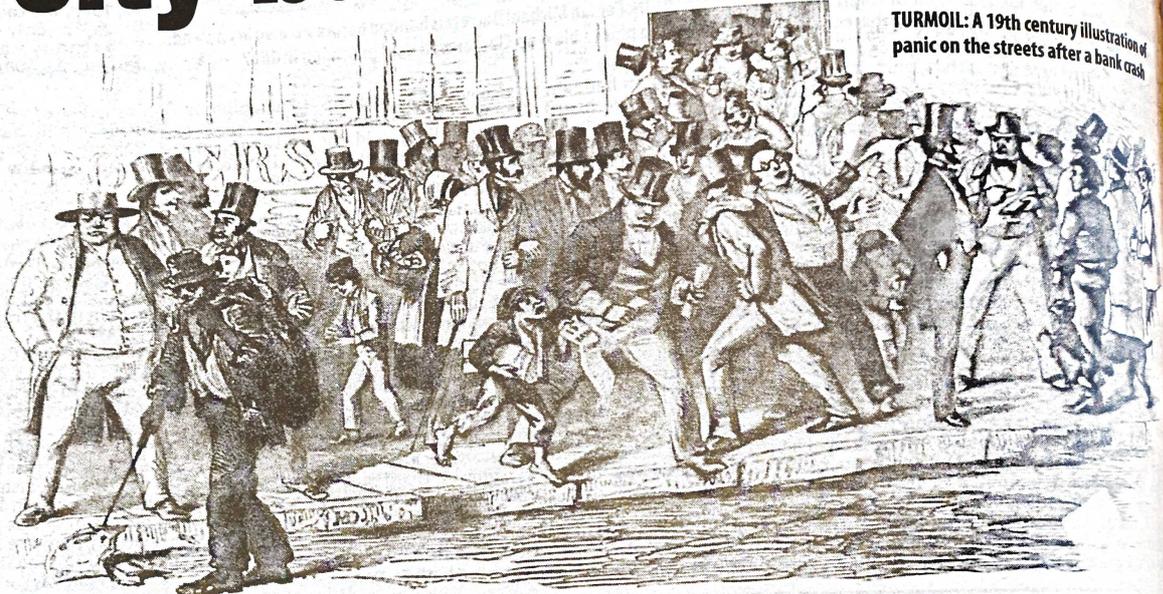
Early in this period, it was noted that there were a number of banks operating throughout Munster and that every "shopkeeper and publican" was issuing IOUs.

Although the Napoleonic Wars were an unstable time, with many banks failing, Roche's was one of the few that had survived, until the 1820 crisis.

The Roches were described as "truly respectable gentlemen who so long conducted the great establishment... They have fallen victims to the combined effects of good nature and bad time, and it is their misfortune, rather than their fault, that in the attempt to diffuse extensive and solid advantages they have failed in their object".

Leslie's Bank did re-open, but closed four years later.

200 years ago next year, two of Cork's four banks ran out of money within minutes of each other. Dr Eoin McLaughlin, a senior lecturer in economics at Cork University Business School, assesses what happened



TURMOIL: A 19th century illustration of panic on the streets after a bank crash

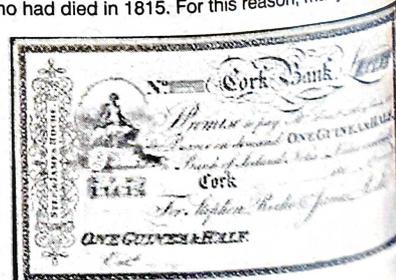
The long-term impact of the crisis was the reform of banking laws, heralding the emergence of modern banking. The rise of joint-stock banking and the gradual elimination of the Bank of Ireland monopoly led to the formation of several banking companies in the 1820s and 1830s; the remnants of these make up today's Bank of Ireland, AIB and Ulster Bank.

The new system was built on the ruins of the old, and Stephen and Thomas Roche later became local directors of the National and Provincial Banks.

The recession of 2008-9 is not really comparable to the 1820 banking shock, as it involved multiple shareholders. The 1820 turmoil had more in common with the 1920s crash in the U.S. if anything, where unit banks were closed because of the depression. ■ Dr Eoin McLaughlin is currently writing a history of banking in Ireland.

Suicides, markets abandoned, bankruptcies... a trail of havoc

- THE effect of the bank crashes in 1820 was catastrophic for ordinary traders and workers, triggering a wave of bankruptcies, unemployment and emigration in what were already recessionary times.
- It was reported that when word of the crash reached an agricultural fair in Molahiffe, Co. Kerry, all trade ceased and the market was abandoned.
- At least two bankers killed themselves nationwide in the wake of the 1820 financial crash in Ireland.
- Roche's was seen as the first 'Catholic' bank — the family were related to the Moylans, who included among their ranks the Bishop of Cork and Ross Francis Moylan, who had died in 1815. For this reason, many ordinary Catholics trusted them with their finances.
- Leslie's Bank staggered on for four more years after the 1820 crash, while Pike's, run by a Quaker family, wound up in 1825. Based at Hoare's Lane, now Adelaide Street, the Pikes later lived at Bessboro in Blackrock, which was bought by nuns in the 1920s for use as a Mother and Baby Home.
- Pike's Bank had been a continuation of Hoare's Bank, which had had the distinction of being the first bank in Ireland when it was opened in 1680, by Edmund and Joseph Hoare, the sons of a Cromwellian captain who had been given 3,500 acres of land in West Cork.
- RIGHT: A Roche's Cork bank note dating from the early 19th century.



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