The British commercial houses in Peru and Chile between the two world wars: success and failure*

Las casas comerciales británicas en el Perú y Chile durante la entreguerra: éxito y fracaso

Rory M. Miller**

Abstract

The previously successful British merchant houses on the west coast of South America faced significant problems between the two world wars. Earlier historians have referred to difficulties such as the volatility of commodity prices, the organisation and structure of the firms, and changes in patterns of trade. This paper, instead, compares their different experiences on the basis of archives from the merchants and their banks, concluding that their response to crisis differed, depending on the manner and extent of diversification, their core expertise, the quality of their management, and the support of their banks. The outcomes varied from outright failure to continued growth, with the two largest firms struggling to survive and adapt to the new business environment.

Key words: *Chile, Peru, merchants, nitrate, sugar, cotton.*

JEL Classification: *L81, N76, N84, N86.*

Resumen

Las casas comerciales británicas situadas en la costa occidental de Sudamérica, que habían experimentado tanto éxito antes de 1914, tuvieron que enfrentarse a nuevos problemas significativos durante el período de entreguerras. Los historiadores que las estudiaron con anterioridad analizaron dificultades tales

---

* I am grateful to a number of people for assistance with this paper, though I take full responsibility for the interpretations it contains. In particular financial support for much of the archival work came from an Economic and Social Research Council grant (R000223222), while the University of Liverpool Management School has funded more recent research. Dr John Dawe carried out some of the ESRC-financed work in London archives for me. The archivists of the Bank of England, Barclays Bank, Guildhall Library, HSBC, Lloyds Bank, London Metropolitan Archives, and University College London Special Collections have, at different times, all been generous with their time and advice. Robert Greenhill has interchanged ideas and material with me many times over the years, and this paper draws on our joint work on the fertiliser (guano and nitrate) trades.

** University of Liverpool Management School, United Kingdom. E-mail: rory@liv.ac.uk

como las fluctuaciones de precios de los bienes primarios, la organización y estructura de estas empresas, y los cambios en la distribución geográfica del comercio. En contraste, este artículo compara sus experiencias individuales tanto sobre la base de sus propios archivos como en los de sus banqueros. Llega a la conclusión de que sus respuestas ante estos problemas fueron muy diferentes, según la manera y el alcance de su diversificación entre los distintos ramos industriales, sus recursos técnicos, la calidad de sus gerentes, y el apoyo que recibieron de sus bancos. En consecuencia, los resultados oscilan entre el fracaso total y el crecimiento regular y sostenido. Las dos empresas más grandes de la época antes de 1914 enfrentaron muchas dificultades para sobrevivir y adaptarse al nuevo ambiente comercial durante la entreguerra.

Palabras clave: *Chile, Perú, casas comerciales, industria salitrera, azúcar, algodón.*

Clasificación JEL: *L81, N76, N84, N86.*

1. Introduction

At the end of the First World War British merchant houses still occupied a strong position in business in Peru and Chile, unlike their role elsewhere in Latin America. Although British merchants had arrived throughout the region during the independence wars, in some locations they had integrated into the local business elite, for example in Venezuela; elsewhere (Mexico, Argentina, Uruguay, Brazil), other incomers or local merchants had displaced them as the submarine cable and more efficient shipping improved communications and eroded the competitive advantages in imports they had once held.[1] In Argentina and Brazil multinational firms began to open their own sales offices and factories, by-passing British intermediaries. However, in Peru and Chile the merchant houses, some of which dated back to the period of independence (Gibbs, Graham Rowe, Huth) or to the mid to late nineteenth century (Duncan Fox, Balfour Williamson, Wm. & Jno. Lockett, H.M. Beausire, Alexander Eccles & Co.) had adapted successfully to the commercial boom that characterised the half-century before 1914 by acting as intermediaries between the west coast, the United Kingdom and other Latin American export markets, and taking advantage of their access to cheap credit and capital markets in London and Liverpool.[2] They dominated several export commodities: sugar, cotton, wool, nitrate, and oil. They also linked the two economies, trading sugar and petroleum from Peru and wheat and flour from Chile, and had begun to invest in food processing,

1 On British merchants generally, see Jones 2000; Chapman 1992; on South America Greenhill 1977a; Greenhill & Miller 1998.

2 For nineteenth-century British merchants in Chile before the War of the Pacific, see Mayo 1987 and Cavieres 1988. On British firms in nitrate, see Greenhill 1977b. Most of the work on Peru has concentrated on Gibbs' role in the guano trade: see Mathew 1981. Miller & Greenhill 2007 is one of the few papers tracing continuities between Peruvian guano and Chilean nitrate.

industrial inputs, and light manufacturing for the domestic market. Several had been responsible for floating free-standing companies in London, including many nitrate firms, in the period between the War of the Pacific and the First World War (Blakemore 1974; Miller 1998).

All these merchant houses disappeared as independent firms trading with Peru and Chile in the generation following World War II. Graham Rowe and Huths had been liquidated as a result of their financial collapse in the early 1930s. Others were absorbed into larger trading and banking enterprises: Balfour Williamson became part of the Bank of London and South America, itself a subsidiary of Lloyds Bank, at the beginning of the 1960s, while a decade later Ralli International, a large global trading house, acquired Duncan Fox. Antony Gibbs & Sons, a shell of its former grandeur as a London merchant bank, struggled throughout the post-war period and eventually concentrated on its insurance interests before its acquisition by Hongkong Bank in 1980 (Jones 2000: 121 and 124-25).

The general impression in the literature is that the roots of this failure lay in the interwar period, and the exogenous changes then that disadvantaged such merchant houses. Greenhill and Miller pointed to three key changes in the 1920s that these firms, accustomed to success in the commodity trades both before and during the First World War, and to the financial dominance of the City of London, had not foreseen: acute price fluctuations in commodity markets; the decline of the Chilean nitrate industry due to competition from synthetics; and British tax and investment policies, which deterred the flotation of new companies. In addition, they noted the slowness to change from a partnership structure, which made firms vulnerable to the retirement or death of a senior member, to incorporation as limited companies (Greenhill & Miller 1998: 107-109). Jonathan Barton (2000) ascribed the decline of British commercial interests in Chile largely to external factors, in particular the United Kingdom's growing insignificance as a market for Chilean products. Geoffrey Jones (2000: 88-89) also draws attention to the severity of economic downturns; the 'commodity price crisis'; competition from new entrants, whether intermediaries from other countries or multinationals internalising functions formerly performed by merchants; and Britain's weak export performance overall.

This paper takes a different approach by focusing on endogenous rather than exogenous factors in explaining the experience of individual firms, in other words their management, financial resources, and investment decisions. It concentrates on five houses that most would consider to be in the top tier of British firms trading in Peru and Chile between the wars: Graham Rowe, Wm. & Jno. Lockett, Duncan Fox, Antony Gibbs & Sons, and Balfour Williamson. By analysing them individually, on the basis of surviving corporate archives and banking records (from Bank of London and South America, Martin's Bank, and Midland Bank), one can observe very different experiences. The most successful, Duncan Fox, possessed able management, and successfully diversified, helped by its close relationship with the Midland Bank. At the other extreme, Graham Rowe, which followed apparently similar strategies, collapsed in 1931 when Martin's Bank withdrew its support. Anthony Gibbs & Sons and Balfour Williamson both suffered serious threats to their survival, in 1920-21 and 1934-35 respectively, which they overcame through assistance from their banks, but at the cost, perhaps, of hindering management attempts at further expansion and diversification. Locketts, perhaps fortuitously, successfully cashed out by selling their interests in Chilean nitrate and Peruvian cotton to local purchasers.

This brief outline suggests the potential benefits in looking at each house individually to determine why they succeeded or failed. It also highlights some possible explanations for their differing fate: earlier decisions about the sectors into which they had diversified their interests (or avoided); the structure and organisation of the firms; the quality of their management in maintaining a balance between entrepreneurship, new investments, and liquidity; the course of particular commodity trades; the firms' ability to anticipate, recognise and respond to crisis; and the extent to which they obtained support from commercial banks and other possible investors in London.

2. The Inter-War Business Environment

The space available here permits only a rapid sketch of developments in the international economy and on the west coast of South America in the 1920s and 1930s, but the key point is that contemporaries could not anticipate events with any certainty. Increased demand for commodities during World War I brought major benefits to exporters in both economies, but both then suffered from the post-war slump in prices that began in 1920 (see Figure 1).[3] During the 1920s both the Peruvian and Chilean economies continued to depend on commodity exports, while experiencing marked industrial growth. Their leading exports changed, however. In Peru cotton, copper and petroleum exports all grew, while sugar prices and export values declined due to global overproduction and increased protection in consuming markets; in Chile copper exports expanded, while nitrate, on which the economy and the Chilean state had depended for forty years, proved more volatile. However, nitrate still made a substantial contribution to Chilean government revenues, contributing 20-25 per cent of the total (excluding extraordinary receipts) between 1925 and 1929.[4] British-owned transport links and merchant intermediaries and financiers underpinned most of these exports (Chilean copper is the major exception).

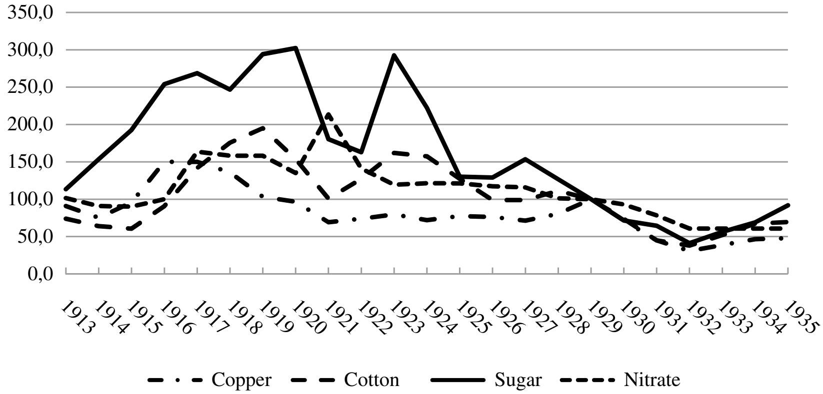
The inter-war economy was thus characterised by commercial volatility and structural change, each of which created difficulties for business decision-making. Major crises occurred in 1920-21, and then again following the Wall Street Crash of 1929, while Peruvian coastal agriculture also suffered in 1925 from the most pronounced El Niño event since 1891, which caused severe damage to crops and transport facilities. Light manufacturing and food processing in both economies expanded, though probably more quickly in Chile than in Peru. There was also, though, significant growth in urbanisation and construction, a sector which is often neglected in economic histories of the two countries, which created employment, demand for locally produced inputs, and a growth in popular

---

3 Nitrate was an exception, suffering a slump as demand from the munitions industry collapsed immediately after the armistice, enjoying high demand for agricultural purposes in the 1919-20 season, and then slumping again in line with the general fall in commodity prices.

4 Calculated from Sunkel 1982: 125 and 139.

FIGURE 1
INTERNATIONAL COMMODITY PRICES, 1913-1935



Sources: Copper, cotton and sugar prices from Montevideo-Oxford Latin American Economic History Database (http://oxlad.qeh.ox.ac.uk), consulted 24 July 2012 and 20 November 2014; nitrate from Braun-Llona *et al.* 1998: 132. The level of nitrate prices for 1932 onwards is unclear.

consumption. Lima's population grew from 176,000 in 1920 to 281,000 in 1930; Santiago's from 507,000 to 696,000 (Mitchell 1983: 107-108).

As commodity prices weakened in the second half of the 1920s, both countries became more dependent on foreign borrowing, primarily in New York, and especially for public works and infrastructure. Here problems first became evident in mid-1928, when many US savers transferred their interest from bonds into the booming stock market (Kindleberger 1985: 323-324). In 1927-28 the Chilean national government issued loans totalling $ 97 million in New York, and the Peruvian $ 90 million (Marichal 1989: 253-255). The volume dropped thereafter, however, although Chile was still able to float $ 24.5 million of long-term debt in London and Switzerland and $ 25 million in New York in 1929-30. Servicing these commitments placed an increasing burden on export earnings and government revenues. Yet, for many of the principal commodities produced by these two countries, prices had already begun to soften.

While we can see clearly what happened in hindsight, to understand decision-making at the time we need to appreciate businessmen's perceptions. Few observers grasped the significance of the Wall Street Crash on 24 October 1929. One London commodity merchant, writing to a Peruvian planter the following day, dismissed the possibility of a serious price fall in sugar, and suggested that 'the market might improve at the beginning of the following year'.[5] Even three weeks later the leading English-language newspaper in Lima could still

5 Henry Kendall & Sons to Aspíllaga Hnos, 25 Oct. 1929, Kendalls correspondence, vol. K.139a, Cayaltí archive, Archivo del Fuero Agrario, Lima. This archive is now in the Archivo General de la Nación and inaccessible to the public.

state: 'More pyrotechnic than fundamental, the famous New York stock market crash of 1929 may be remembered in the history of panics as a short but merry one'.[6] A week later, however, Evelyn Baring wrote to London from Lima that Peru had entered an acute financial crisis, and the Leguía government would be unable to repay a US$ 5 million advance from Seligmans due in January 1930.[7] A worsening economic and employment situation led eventually to the overthrow of Leguía's administration in August 1930, followed two months later by the collapse of one of Peru's two leading banks, the Banco del Perú y Londres, which had concentrated on lending to coastal landowners against deliveries of future crops (Quiroz 1993: 82). In the meantime the provisional government's financial situation became increasingly desperate: short of revenues, the government began to ask foreign firms for future tax payments in advance.[8] Even so, it could not avoid default on its dollar-denominated debt in May 1931. Over two years this unforeseeable chain of events undermined the assumptions that both foreigners and Peruvians had held about the health of the country's economy.

The collapse of exports and the cessation of foreign lending also destabilised the Ibáñez regime in Chile. During the 1920s Chile's share of the world market for nitrates had been declining due to competition from synthetics, falling to 24 per cent by 1928. While production peaked at 3.2 million tonnes in 1929, it fell to 2.4 million in 1930 and 1.1 million in 1931 (Braun-Llona *et al.* 1998: 45). Output figures for these years, however, actually understate the drop in exports, since stockpiles at the *oficinas* increased for lack of markets. Yet many businessmen had remained optimistic about the industry's future, partly due to the introduction of new technology by the Guggenheims from 1926, which they claimed would permit Chilean nitrates to compete with synthetics (O'Brien 1989; Glaser-Schmidt 1995), partly because of expectations that world demand for nitrogen would continue to increase because global population growth meant growing demand for foodstuffs. When the industry recovered late in 1927, the leading business weekly in Valparaiso commented that it was 'probable that our main industry [would] find a level of wellbeing and prosperity we [had] never expected'.[9] 'The tendency of the various Chilean producers to concentrate into very few large groups', *The Economist* commented immediately before the Wall Street Crash, 'should prove a substantial benefit to the industry in its future development'.[10] The Chilean government confronted the crisis by attempting to stabilise the industry through an agreement with the leading European synthetics producers in August 1930, and the establishment of a joint venture with the Guggenheims to take over *oficinas* and monopolise shipments. This new firm, COSACH (Corporación de Salitre de Chile), began operations in March 1931. However, these measures could not save either Chile's international credit or

---

6 *West Coast Leader*, 19 Nov. 1929.

7 Evelyn Baring to Edward Peacock, 26 Nov. 1929, Partners Files Supplementary Series, file #203284, ING-Barings Archive. See also *West Coast Leader*, 3 Dec. 1929, on the suspension of public works.

8 Peruvian Corporation, Representative's Annual Report for 1930, pp. 8-10, PC/Lima.

9 *Revista Comercial*, 29 Oct. 1927.

10 *The Economist*, 19 Oct. 1929, p. 730.

the government. Ibáñez fell in July 1931 and default on the external debt immediately followed, giving rise to a year of chaotic politics in Chile.

In mid-1931 the global financial crisis entered a new and yet more dangerous phase. The collapse of an Austrian bank, Kredit Anstalt, in May 1931, provided the trigger. Shortly afterwards the Darmstadter Bank failed, and Germany announced a moratorium on its foreign debt. In Britain the Bank of England faced a combination of crises from July onwards: a run on the pound, leading to a substantial loss of gold reserves, and the threatened collapse of both a leading investment bank, Lazards, and the country's largest overseas bank, the Anglo South American Bank (ASAB). The latter posed a serious threat to the stability of the entire financial system (Kindleberger 1985; Sayers 1976; Kynaston 1999). While ASAB, which had lent heavily to the troubled Chilean nitrate industry, was rescued, at least temporarily, the intensified crisis quickly brought an end to Graham Rowe, one of the oldest Liverpool merchant firms on the west coast, in October 1931.[11]

The withdrawal of Britain from the Gold Standard in September 1931 precipitated extensive changes in the Latin American business environment, in particular the introduction of exchange controls, further currency depreciation, and a rise in tariffs in order to improve government revenues, all of which eventually had the effect of increasing protection for domestic manufacturing and stimulating further growth. Low demand for exports meant that commodity prices reached their nadir in 1932 (Figure 1). The situation in Chile was particularly serious. Short of finance to cover the costs of formation and provide working capital, COSACH proved unable to survive the crisis; in January 1933 a new government took the decision to liquidate it (O'Brien 1989: 153-154). By 1933 the Chilean peso had fallen 76 per cent since 1928, exports were below one-fifth of their 1929 level, and acute shortages of foreign exchange meant that it was costly, if not impossible, to remit from Chile (Mazzei de Grazia 1990: 23; Palma 1985: 327-328).[12] While the recession did not affect Peru quite as badly, by 1932 the value of its exports had fallen by about 70 per cent compared with 1929, and the sol had lost around 40 per cent of its value against the US dollar.[13]

How did British merchant houses react to these changes, in particular the crises that confronted them in both countries in 1920-21 and 1929-33? Did they take new investment opportunities in the intervening years? Did they overcommit or select the wrong sectors for new investments? Did they recognise and respond in time to crises or look for solutions too late? At the time events were moving very fast, and making a poor decision or finding oneself constrained by past commitments and lack of liquidity could prove extremely costly. As an incoming chairman of the Anglo South American Bank commented in mid-1932:

---

[11] Martins Bank Ltd., Minutes of Directors, 20 Oct.1931, Book #17, Barclays Bank Archive, Wythenshawe (hereafter Martins, Minutes, date, Book #, BBA).

[12] 'Report of the Sub-Committee on Exchange Restrictions in South and Central America', 2 Feb. 1933, and 'Note on Meeting between Bank of England and Manchester Chamber of Commerce Representatives', 11 Feb. 1933, file OV 188/1, Bank of England archive.

[13] Calculated from figures in MOxLAD database, accessed 25 July 2012.

> Since last autumn the world crisis has become intensified to a degree which few of us even a short time ago would have thought possible … It is not unnatural that I should find various matters which I am inclined to criticize, but I have to admit that I am looking at them with the eyes of 1932, and that a good many things to-day look very different to all of us from what they looked one, two, or three years ago.[14]

The internal papers of the west coast firms and their banks indicate that very few anticipated the depth of the crisis or its world-changing nature, including its impact on Chilean and Peruvian government finances and policies, and the economic growth that followed from about 1933. Survival and renewed expansion thus required highly competent management; without it, financial distress and ultimate failure could well result, as in the case of the Anglo South American Bank, Graham Rowe, and Frederick Huth & Co.

3. The Failures of Graham Rowe

Towards the end of the 1920s other merchants and financial houses made many positive remarks about Graham Rowe's attempts to adapt to the changed business environment. Evelyn Baring, for example, commented to its senior partner in Chile that the firm was 'dead right' to adopt a strategy of investing in local industrial production.[15] Lord Cullen, a senior partner of Antony Gibbs & Sons, also noted in 1929 that Graham Rowe were dedicating resources to local manufacturing in Chile and 'said to be doing quite well from it', a view echoed by a Gibbs partner in Santiago two years later, shortly before its collapse.[16] The Unilever archives contain evidence of Graham Rowe's attempts to interest them in soap manufacturing in Chile.[17] However, Graham Rowe's main problems lay in Peru. Evelyn Baring's 1929 comments on the contrast between the house's activities in Lima and Valparaiso are telling:

> My opinion of their activities in Peru was not high. In Lima they seemed to be a moribund firm which have lost most of their valuable agencies, and were now engaged in the dangerous business of the importation of motor cars, in addition to their agricultural interests ... [In Chile] the position is quite different ... Edgar Gubbins ... struck me as being very much alive and a keen business man ... Graham Rowe in Chile have taken an active interest in the formation of manufacturing companies; they own a half share in the biggest sugar refinery in Santiago, they control the soap factory there ... They control the most important glass factory in Chile; they have just started in

---

14 *The Times*, 28 June 1932.

15 Evelyn Baring to Edgar Gubbins snr., 11 Dec. 1929, file 203285, ING-Barings Archive .

16 Cullen to Herbert Gibbs, 21 May 1929, file 16875/2, and Frank Dobree to Walter Gibbs, 12 Sep. 1931, file 16875/3, Gibbs papers, London Metropolitan Archive (hereafter Gibbs/ LMA).

17 Lever Brothers, Overseas Committee Agendas, Book A, 8 Dec. 1926, Book C, 27 Oct. 1927, Book E, 14 May 1928, Unilever archive, Port Sunlight.

> partnership with Atkinson's of London, and the factory is turning out soap, scent and powder. They are building two factories ..., one of which will be for the manufacture of ginger-ale and the other for the making of gin. In the south of Chile, … they control a factory for making condensed milk, and … are most anxious to get in touch with Crosse & Blackwell, and to induce them to form a Chilean company to bottle the fruits of the country.[18]

If the Chilean partners appeared fully aware of their changing and difficult environment, repositioning their activities accordingly, their Peruvian counterparts were not. Instead they had become locked into the volatile trade in cotton, financed by Martin's Bank of Liverpool. This had burned the firm before, in 1921, when Graham Rowe's unsecured overdraft to Martin's had reached such a dangerous level that the bank's directors met specially to consider it. A Martin's board minute explained the miscalculations Graham Rowe had made:

> After the Armistice, the Firm had developed unusual activity in the belief that the boom in trade then current would continue, and, in particular, had shipped large quantities of goods to the West Coast for sale, and had advanced freely to Peruvian Growers of Sugar and Cotton, such advances being intended to be liquidated out of proceeds of the crops.[19]

As prices fell, these debts became more difficult to recover; one particularly large cotton producer, Coloma Rehder & Co., owed Graham Rowe over £ 400,000.[20] Graham Rowe itself owed Martin's £ 1 million, half of it unsecured, and the bank in fact considered calling in the loan and putting the merchant house into liquidation, until the governor of the Bank of England dissuaded it due to the wider damage that would ensue. Martin's board thus agreed a rescue plan involving much closer monitoring of the Lima subsidiary, as well as retrenchment in the form of reducing the Lima partners' drawings 'to moderate sums'.[21] The bank's directors continued to receive updates on the overdraft until November 1923, but these ceased once trade recovered and the securities deposited with the bank covered the entire amount outstanding.[22]

One problem for the bank was that Graham Rowe's overdraft fluctuated due to the seasonality of the cotton trade, normally touching a peak immediately before the first shipments from Peru arrived in Liverpool in mid-year. In April 1925, the overdraft reached almost £ 400,000, with just over half of this unsecured.[23] This coincided with the worst El Niño event for many years, which caused extensive flooding on the Peruvian coast, an external shock which Graham Rowe's management had not envisaged, and from which they never recovered. Martin's General Manager warned in November 1925 that the unsecured overdraft might reach as much as £ 300,000 before 1926 shipments

---

18 Evelyn Baring to Alfred Mildmay, 14 Dec. 1929, file 203284, ING-Barings Archive.
19 Martins, Minutes, 5 July 1921, Book #13, BBA.
20 On Coloma's business, see Quiroz 1993: 125.
21 Martins, Minutes, 5 July 1921, Book #13, BBA.
22 Martins, Minutes, 15 July 1924, Book #14, BBA.
23 Martins, Minutes, 25 April 1925, Book No. 14, BBA.

arrived. Another emergency discussion took place in September 1926, when the unsecured overdraft amounted to £ 429,000. Accountants whom Martin's sent to Lima discovered a hole in the Lima partnership's capital compared with the figures provided to the bank. A subsequent board minute offers a bleak picture:

> There seemed to be a lack of control over the business by the Liverpool partners, and the accountants reported that the firm's system of book-keeping was very antiquated ... The firm had got into a locked up condition in consequence of their large advances to Coloma Rehder and Checa, and failing substantial realisation of assets or repayment from those two debtors it was difficult to see how the firm could get into a comfortable position within a reasonable time.

The accountants also discovered that Graham Rowe had not properly registered the mortgages it held on cotton estates in Peru, making legal action to recover debts potentially difficult and costly.[24] Further problems arose in December 1928 when Graham Rowe lost the agency of the Viña del Mar sugar refinery in Chile. This had provided them with working capital to the tune of about £ 100,000, since the refinery paid cash for sugar which Graham Rowe purchased in Peru using 90-day bills. Again Martin's board considered forcing the firm into liquidation but concluded that it would be 'disasterous [sic] and would have wide repercussions'.[25]

The evidence from the firm's bankers, therefore, is that even before the Wall Street Crash, Graham Rowe in Lima had irresponsible management, poorly monitored by the Liverpool partners, and suffered from serious liquidity problems due to their gamble on rising cotton production and prices, and the concentration of lending to two major debtors. New business that it had tried to establish in Peru, such as agencies for US car manufacturers, had also made serious losses. Another visit by the accountants in August 1929 reported a figure of £ 702,906 now owing to the bank, £ 448,600 of which was unsecured. In the words of the board minutes:

> From the report it appeared that the Lima House had approximately £ 1,000,000 locked up in cotton estates, principally with growers called Coloma and Checa. Floods, bad seasons and pests had altogether crippled both Coloma and Checa ... Added to this, the American Banks in Lima had questioned Messrs Graham Rowe & Company's position, with a result that the firm, to save their credit locally, felt it necessary to repay all advances amounting to some £ 50,000 ... That had increased the firm's dependence on us.[26]

Evelyn Baring, whose house was also a creditor of Coloma, reported pessimistically in November 1929: 'G.R's [Graham Rowe's] reputation in Lima is not good. They are said to have lost business to a great extent during the past few years and are known to be very locked up. Any attraction the thought of taking

[24] Martins, Minutes, 28 Sep. 1926, Book #15, BBA.
[25] Martins, Minutes, 11 Dec. 1928, Book #16, BBA.
[26] Martins, Minutes, 20 Aug. 1929, Book #17, BBA.

over G.R's business may have had for me in the past has now gone for ever. They stand to gain all by the success of C.A.C [Coloma] and to lose all if he fails'.[27]

In July 1930 Martin's agreed a new 12-point plan with Graham Rowe, following a threat that Coloma might suspend payments. Martin's now wished to impose a limited company structure on the firm, in which the bank would hold preference shares, bringing in new management to both the Lima partnership and the Coloma estates, and limiting the income of the partners whose decisions had created the crisis. 'The alternative', the board minutes read, 'was immediate liquidation which in the present state of trade would result in considerable loss to the Bank'.[28] Such a rescue might have worked five years earlier, but the bank and the Liverpool partners had allowed the Lima house's strategy to remain unchanged since it recovered in the early 1920s. Large loans to two planters meant that the continued decline in cotton prices overwhelmed them (see Figure 1). In October 1931 the Martin's board received the news that Graham Rowe would suspend payments: one accountant appointed by the bank had already arrived in Lima, while another was en route to Chile.[29] The loss to Martin's was so great that it established a separate provisions account for Graham Rowe, and the subsequent liquidation, in the economic and political conditions of the 1930s, took years.

In retrospect, the problems that led to Graham Rowe's demise are clear: lack of control from Liverpool, together with partners in Lima who gambled rather than maintaining liquidity, and who did not learn from past mistakes, repeating errors first made in the early 1920s. They misread the financial situation and entrepreneurial abilities of the planters to whom they were lending in Peru, failed to retrench, when pressed to do so by Martins, and did not restructure their processes, which continued to obscure their own financial situation. The result was extreme vulnerability to external shocks such as poor weather, falling prices, or the recall of funds on which they depended for working capital.

4. The Withdrawal of Locketts

The history of Wm. and Jno. Lockett dates back to the 1830s in Liverpool, but it was only later that the firm became interested in South America. In Chile it was closely associated with Colonel John Thomas North and Robert Harvey, who took advantage of their position in the Peruvian nitrate industry before the War of the Pacific to accumulate properties that they subsequently floated on the London Stock Exchange. Tellingly, the first such venture was the *Liverpool* Nitrate Company in 1883; Locketts held seats on the board and acted as agents for the import of supplies and exports of nitrate. Three further nitrate company flotations followed between 1883 and 1886; later in the decade Locketts also participated in other North ventures, the Nitrate Railways Company and the Bank of Tarapacá and London. After North's death in 1896 Locketts took over

[27] Evelyn Baring (Lima) to Alfred Mildmay (London), 17 Nov. 1929, file 203284, ING-Barings Archive.

[28] Martins, Minutes, 22 July 1930, Book #17, BBA.

[29] Martins, Minutes, 20 Oct. 1931, Book #17, BBA.

his commercial interests in Iquique (Albert 1976: 225a-245a; Blakemore 1974: 32-35, 63-64). Organised as a partnership, like most merchant firms at the time, Locketts' influence in, or control over, publicly listed companies provided them with steady commissions on imports, exports, and bills of exchange drawn on the Liverpool house and secured on nitrate shipments.

In Peru the Locketts had acted as Liverpool agents for a Scottish sugar planter, Henry Swayne, since 1849; after his death his heirs fell deeper into debt, the amount owing to Locketts reaching between £ 130,000 and £ 160,000 by the late 1890s, a period of acute crisis for 'traditional' Peruvian sugar estates. Rather than undertaking expensive and uncertain legal action in Lima to recover this, the Locketts formed the British Sugar Company in 1900, initially taking a 60 per cent share and then purchasing full control in 1911 (Albert 1976: 222a). At the same time they formed a subsidiary house in Lima to oversee the management of the sugar plantations and their trade in Peruvian cotton, like other Liverpool merchant houses such as Graham Rowe and Duncan Fox. Like other planters on the Peruvian coast south of Lima, they shifted from direct cultivation of sugar, which required expensive new machinery, to cotton, which utilised sharecropping labour. After some very prosperous years during World War I, they sold their Cañete plantation to Peruvian capitalists in 1920 at a substantial profit, though they retained their San Jacinto sugar estate to the north of Lima and invested heavily in it (Albert 1976: 239a-243a).

As with Graham Rowe, Locketts' archives have disappeared, and our knowledge of the firm's strategy comes from what its directors told Midland Bank, on which it depended for overdraft facilities. These papers indicate that the firm, though relatively healthy financially, faced three main difficulties in its South American trades during the 1920s.

The first lay in its vulnerability, as a partnership, to the death or withdrawal of a senior partner. Following the death of George Lockett in 1923, the firm owed his heirs over £ 280,000, a sum they paid in instalments over the next few years.[30] The eventual solution, undertaken in 1928, was to replace the partnership with a private limited company, meaning that a partner's death would leave his heirs with shares rather than the right to withdraw capital.[31]

The second problem was the firm's continuing control of the Liverpool Nitrate Company (LNC), which it supplied with working capital for production and stockholding. Midland Bank grew increasingly concerned, as Martin's had with Graham Rowe, about the unsecured portion of its overdraft which, taking Locketts and the LNC together, amounted to around £ 450,000 in September 1926 (a further £ 250,000 was covered by securities). Locketts were well aware of the difficulties the industry was facing, as Edward Houghton explained to a senior bank official in 1926: growing competition from synthetics produced in Europe; the seasonality of the trade and the need to finance stocks; the uncertainties introduced by the new process under development by the Guggenheims;

[30] Midland Bank, Interview of Mr Parkes with Cyril Lockett and Edward Houghton, 20 Oct. 1924, Midland Bank, H.O. Lancashire Section, Diary of Interviews, file 30/118; HSBC archive.

[31] Midland Bank, Interview of Mr Parkes with Cyril Lockett, 10 Jan. 1928, and 2 April 1928, file 30/122, HSBC archive.

and the high level of Chilean export duties.[32] Nonetheless, the bank limited its unsecured advances to £ 150,000 and refused further facilities later, forcing Locketts to look elsewhere to discount its bills.[33] The solution arrived a year later, at a period of suddenly high demand for nitrate, when a Chilean entrepreneur, Santiago Sabioncello, backed by the Anglo South American Bank, offered almost £ 40,000 for Locketts' holdings in the Liverpool Nitrate Company and £ 126,000 for the firm's entire business in Chile. Having sold up, Cyril Lockett remarked to the Midland Bank official responsible for the firm's account at the end of 1928 that 'they were absolutely out of Chile now and had no interests there, for which he was very glad'.[34]

The third set of problems Locketts faced came in Peru, where they held shares in both the San Jacinto sugar estate and a cotton ginning firm, earning commissions on exports, supplies, and finance facilities, as well as making advances to other cotton producers. While cotton exports were expanding markedly in Peru in the 1920s, the difficulty for Locketts, they reported to the Midland Bank, was that their 'cotton [was] somewhat difficult to sell because of the great variety of cotton types in the market and they have to wait until their particular kind of cotton is wanted by some particular spinner'.[35] The following year they reported to the bank that 'they [had] had severe losses in their own business in connection with advances made to cotton planters in Peru'.[36] After a failed crop in 1927, resulting in losses of about £ 60,000, they pulled out of the trade altogether, leaving them only with their share in the sugar estate.[37]

What Locketts' case illustrates, in contrast to Graham Rowe, is a successful exit from risky and uncertain commodity trades as they took advantage of the opportunity to sell businesses during temporary upturns and thus offset past losses. It is unclear whether this was a deliberate strategy. Perhaps fortuitously, they sold Cañete at the peak of the post-war market, and later extracted themselves from nitrate immediately before it finally crashed. To some extent the constraints on borrowing imposed by Midland Bank, as well as their pessimism about Chile, may have forced the nitrate decision on them when Sabioncello arrived with an offer they could not refuse. However, their decision-making was clearly more effective than Graham Rowe's, in terms of their restructuring of the firm into a limited company, their reading of future prospects in sugar, cotton and nitrate, and their unwillingness to throw more money at actual or potentially loss-making enterprises, and they retained trusting relationships with their bankers throughout.

---

32 Midland Bank, Interview of Mr Parkes with Edward Houghton, 9 Sep. 1926, file 30/120, HSBC archive.

33 Midland Bank, Interviews of Mr Parkes with Cyril Lockett and Edward Houghton, 1 Nov. 1926, file 30/120; 4, 11, 13 Jan. and 15 and 18 Feb. 1927, file 30/121, HSBC archive.

34 Midland Bank, Interview of Mr Parkes with Cyril Lockett, 27 Dec. 1928, file 30/122, HSBC archive.

35 Midland Bank, Interview of Mr Parkes with Edward Houghton, 9 Sep. 1926, file 30/120, HSBC archive.

36 Midland Bank, Interview of Mr Parkes and Mr Jackson with Edward Houghton and Cyril Lockett, 5 July 1927, file 30/121, HSBC archive

37 Midland Bank, Interview of Mr Parkes with Cyril Lockett, 10 Jan. 1928 and with Edward Houghton, 11 Jan. 1928, file 30/122, HSBC archive.

5. The Success of Duncan Fox

By the 1920s Duncan Fox, a Liverpool merchant house established in the 1860s and still organised as a partnership, possessed widely diversified interests in Peru and Chile. These did not include, in contrast to Graham Rowe and Locketts, either sugar or nitrate, though they did have extensive interests in cotton and wool. Again, the firm's own archives have not survived, and we are dependent on the Midland Bank for knowledge of their strategies and decision-making.[38] Details are relatively thin, however, since, apart from one brief episode, the firm appears not to have been a major source of concern. Overall, Duncan Fox seem to have aroused the admiration of their rivals, especially in the 1930s, to have made good profits, and not to have got near to a situation of financial distress that might have required extraordinary appeals to their creditors. 'Duncan Fox are so exceedingly active everywhere', a London partner of Antony Gibbs & Sons wrote in 1935, 'that it seemed to me there was quite a chance of their getting all the business worth while [sic] in Chile and Peru', to which his Valparaiso counterpart responded, 'They have a huge staff here, and seem to go in for anything and everything'.[39] This strategy of entrepreneurial diversification certainly seems to have paid off. At a time when firms like Gibbs and Balfour Williamson were struggling, Duncan Fox reported profits of over £ 300,000 for the two years ending in June 1935 to the Midland Bank, followed by £ 202,000 for the year ending June 1937.[40]

Duncan Fox was never over-committed to any one business or either country. Geoffrey Jones (2000: 362-363) estimates the partners to have possessed capital of about £ 930,000 in 1914, while it reported assets of around £ 1.25 million to the Midland Bank in 1927.[41] A rare surviving file from the firm itself shows an extensive range of lending to cotton planters in the Piura and Chira valleys in Peru in the 1890s, and short-term advances against cotton crops provided the core of its business in that country; unlike Graham Rowe it did not become deeply involved in the sugar industry, which required long-term commitments (Larco Herrera 1923: 171).[42] Lending to cotton planters often also involved ginning their cotton, which led in turn to investments in cotton seed oil and soap and margarine plants in the Fábrica de Aceite San Jacinto (Pachas Castilla 1976: 37). Duncan Fox also founded two cotton textile mills in Lima, La Unión and El Progreso, which together had an estimated capital of around £ 200,000 in 1922,

---

38 On the plane on my first visit to Peru in 1971 I sat next to a Duncan Fox executive returning from home leave. I asked him about the firm's archives, and he replied that it had burnt its Lima papers the previous year out of fear of the nationalist military government which had come to power in 1968. He himself had lit the bonfire. When I asked him what the archive had contained, he replied, to my obvious consternation and dismay, that the papers included the entire partnership correspondence with Liverpool dating back to 1863. This taught me an early lesson on the precariousness of a career as a business historian!

39 Korn to Blair, 13 Sep. 1935, and Blair to Korn, 23 Sep . 1935', file 16875/7, Gibbs/LMA.

40 Midland Bank, Mr Lederer's Note of Conversation with Mr F.H. Fox, 25 Oct. 1935, file 30/129, and 5 Nov. 1937, file 30/131, HSBC archive.

41 Midland Bank, Note by Mr Parkes, 9 Feb. 1927, file 30/121, HSBC archive.

42 Duncan Fox, Note attached to Temple to Fox, 8 Sep. 1891, file 1556/4, Edward Hall Collection, Wigan Record Office.

about one-sixth of the industry's capacity, making the firm the second largest producers after Grace and Co. (Jiménez 1922: 5 and 7). Both in Peru and Chile Duncan Fox acted as agents for leading British manufacturers of branded goods such as Lever Brothers and Reckitt & Sons, manufacturing Nugget polishes for the latter. In Chile they avoided over-exposure in the nitrate trade, investing instead in the El Globo flour milling company (Mazzei de Grazia 1990: 29), as well as extensive sheep-raising haciendas in the south through the Sociedad Explotadora de Tierra del Fuego. A report to the Midland Bank in 1934 listed six main companies in which the firm had a majority interest and for whom they acted as agents, all of which, it argued, it could easily realise apart from one cotton estate in Peru.[43]

Without internal correspondence one cannot be sure about the quality of the firm's management and the extent to which its survival and expansion were a matter of good fortune or perspicacity, but it seems to have avoided any problems which might cause concern to its principal bankers in England. Like Locketts, it suffered in the 1920s from the death or withdrawal of partners, and adopted a similar solution, first by implementing clauses in the partnership agreements that allowed for staged payments to the heirs, and then by incorporating as a private limited company with a nominal capital of £ 950,000 in 1928. It seems also that the Midland Bank continued the old partnership's arrangement for an unsecured overdraft of £ 350,000 (Jones 2000: 96-97).[44] The firm appears to have acted promptly to curtail its activities and costs when crisis came. In April 1930 it told the bank that it had temporarily ceased to import cotton due to the losses incurred, and two years later it claimed to have saved £ 50,000 a year on salaries.[45] Midland Bank sources indicate that at a time of business recession generally they did have some concerns about Duncan Fox's stability, in particular its vulnerability to calls on money that employees, partners, and the heirs of former partners had deposited with the firm; in total this amounted to over £ 300,000 and provided it with a good part of its working capital.[46] The bank first asked for greater security for the overdraft, and then for its reduction and increased personal guarantees from the directors.[47] However, the fact that references to Duncan Fox in Midland Bank archives are infrequent for the period, compared with the intense discussions that occurred in Martin's with regard to Graham Rowe or in Midland with regard to Locketts during the 1920s, suggests that Duncan Fox managed to cope with the bank's curtailment of credit; the comments of Gibbs about its activities in the mid-1930s, noted earlier, imply that,

---

43 Midland Bank, Interview of Mr Lederer with Mr Petrie, 4 May 1934, file 30/128, HSBC archive.

44 Midland Bank, Interview of Mr Parkes with F.H. Fox and Dr Fox, 4 Oct. 1928, file 30/122, HSBC archive.

45 Midland Bank, Interview of Mr Lederer with F.H. Fox, 25 April 1930, file 30/124, and Mr Parkes and Mr Lederer's Meeting with Mr Fox and Mr Petrie, 28 April 1932, file 30/126, HSBC archive.

46 Midland Bank, Mr Parkes and Mr Lederer's Meeting with Mr Fox and Mr Petrie, 28 April 1932, file 30/126, HSBC archive.

47 Midland Bank, Interview of Mr Lederer with Mr Royden, 15 Jan. 1932, file 30/126; Extract from Mr Hyde's diary, Note of Interview with Mr Fox, 22 Sep. 1933, file 30/127, HSBC archive.

despite cuts, the firm had the staffing and financial resources to take advantage of opportunities in Peru and Chile, and this laid the foundation for future growth. Twenty years later, in 1956, a senior Bank of England official undertaking an extensive and generally pessimistic survey of British interests in South America confirmed that Duncan Fox was 'flourishing' on the west coast.[48]

6. The Survival of the London Houses: Gibbs and Balfour Williamson

Geoffrey Jones's estimates of capital employed by individual merchant houses in 1913 suggest that Balfour Williamson and Antony Gibbs & Sons, both by then based in London, were the largest firms operating in Peru and Chile, Balfour Williamson with capital of about £ 2 million and Gibbs with £ 1.5 million, though these sums include interests in Australia in the case of Gibbs and in North America in that of Balfour Williamson (Jones 2000: 54). Due to their identification with Chile both firms had withdrawn from Peru during the Pacific War (1879-83), although Balfour Williamson returned after 1903 through an association with a Lima firm, Milne & Co., which owned the Santa Rosa flour mill. Gibbs reopened in Lima later, in 1928. The senior partners in both houses were actively engaged in national politics, Sir Archibald Williamson (later Lord Forres) with the Liberals and Herbert Gibbs with the Conservatives. Both had partners who were bank directors. Antony Gibbs & Sons also had the status of an 'issuing house', providing directors of the Bank of England and indeed a governor, Sir Brien Cokayne (later Lord Cullen), in 1918. Both had also become deeply involved in the nitrate industry, and Gibbs led nitrate purchasing for the allies during the First World War (Couyoumdjian 1974-75: 28-29). And both ran into serious liquidity problems in the inter-war period, in Balfour Williamson's case twice, although they did survive as independent firms until the 1960s.

6.1. Antony Gibbs & Sons

Gibbs' interest in nitrate predated Chile's capture of Peru's nitrate deposits during the War of the Pacific, and they subsequently played a leading role at various stages of the commodity chain, as investors in nitrate grounds and producers, as agents for their own and other companies, and as distributors in Europe (Miller & Greenhill 2007). Their high profile made them a natural choice as purchasing agents once Britain and France established the allied Nitrate of Soda Executive in 1917 (Couyoumdjian 1974-75: 50-53). Although one of the senior partners had expressed pessimism about the long-term future of Chilean nitrate earlier that year, writing to Valparaiso that Gibbs ought to start shifting its focus from nitrate to agriculture, and they had begun to dispose of some production companies, their appointment as sole agents for the allied governments gave them a prime role in nitrate distribution that they subsequently wished to

[48] G.J. McGillivray, 'British Status in South America, 8 May 1956, file OV 188/8/16-20, Bank of England archive.

retain.[49] As Herbert Gibbs wrote to a new senior partner in Chile in April 1921, after the trade had entered a serious crisis:

> In undertaking the large Nitrate commitments in June last we were actuated solely by the idea of keeping our position in the regular business which we had built up between us and which appeared to be steady and profitable. We knew of course that the price was high and … there was the risk that we might be left with some stock … but against that risk we had profits in hand in the Nitrate business of well over £ 1,000,000 in June which we thought would cover any possible loss.[50]

This proved to be a disastrous miscalculation, as European demand for nitrate collapsed and prices fell, though the evidence suggests that Gibbs reacted quickly to the impending crisis, taking measures to retrench and using their networks to maintain liquidity. By December 1920 the London partnership was already asking Valparaiso to their drawings on the parent house and remit to London as much as possible; later that month both the Anglo South American Bank and the Banco Alemán Transatlántico limited their discounting of Gibbs' bills, as a commercial and financial crisis gripped the City of London.[51] It also became clear that the Valparaiso house had lost an estimated £ 200,000 in 1920 on produce and merchandise, excluding nitrate.[52] Using their connections with the Bank of England, Gibbs had already borrowed £ 750,000 from the Bank of England in 1920 against security of government bonds. In January 1921 Lord Cullen asked his successor as governor of the Bank for further assistance, outlining the risks Gibbs faced from the potential failure of other firms that distributed nitrate in Europe.[53] By June 1921 Gibbs owed the Bank £ 2.9 million, and by April 1922 £ 4.4 million.[54] Thereafter the crisis diminished as demand recovered, but it left Gibbs with a serious hole in their capital. David Kynaston (1999: 88-89) estimates that Gibbs lost a total of £ 3 million in nitrate in the early 1920s, and concludes that 'Gibbs had received a body blow from which it would never recover'.

After 1921 Gibbs could no longer dominate the nitrate industry as they had previously, though they continued to manage their own companies and act as agents for others, as well as retaining assets in unexploited lands and distributing nitrate in Europe. However, the competition from synthetics and the Guggenheims' attempt to consolidate the industry using new technology gradually marginalised them and made them unwilling to commit more resources. They also lost agencies as ownership of the industry shifted to Chilean entrepreneurs, many of whom,

49 Herbert Gibbs to C.W. Evans, 2 April 1917, file 11115/2, Gibbs/LMA.

50 Herbert Gibbs to David Blair, 7 April 1921, file 11115/2, Gibbs/LMA.

51 Herbert Gibbs to Dobree, 6 December 1920; Herbert Gibbs to Alfred Sharman, 20 December 1920; Valparaiso to London (telegram), 24 Dec. 1920, file 11115/2, Gibbs/LMA.

52 Valparaiso to London (telegram), 17 Jan. 1921, file 11115/2, Gibbs/LMA.

53 Lord Cullen to Governor of the Bank of England, 29 Jan. 1921, file 11042/2, Gibbs/LMA.

54 Antony Gibbs & Sons, Statement of liabilities on 30 June 1921, given to Governor (by hand) on 12 July 1921; and Balance Sheet, 24 April 1922, file 11042/2, Gibbs/LMA.

like Santiago Sabioncello, they did not really trust (Miller & Greenhill 2014).[55] Instead, Gibbs attempted to diversify in various directions in Chile, undertaking the construction of a new flour mill in 1922 for the Compañía Molinera California, which they controlled (Mazzei de Grazia 1990: 29) , and importing new products such as Ford motor vehicles.[56] However, they had little success, except in milling, and even there competition from Duncan Fox and Balfour Williamson eroded profits. By 1928 the individual partners in the Chilean subsidiary, Gibbs & Co., owed the firm over £ 200,000, in effect depriving themselves of working capital, and expressed little confidence in the future in Chile:

> One of the objects in harping on the pestilential conditions of the country today is because we have so repeatedly suggested that it is no longer a satisfactory place for Gibbs & Co. to depend upon entirely for its future... Business is rapidly becoming not worth doing at all. It would be much easier for us to gradually cut down business in Chile to the proportions warranted by present conditions and prospects... Chile with its population has remained absolutely stagnant [for 25 years]. Things must be pretty rotten here when people solemnly talk about a war with Peru as being a possible solution of the Government's difficulties.[57]

The Chilean partners by now feared being pushed out of nitrate altogether, with serious consequences for their whole business.[58] Despite their reservations about the political state of Peru and the degree of graft and corruption under Leguía, it did appear to a partner sent to investigate that there was 'lots of sound business to be done' in Lima.[59] They thus opened an office there in 1928, as well as considering an amalgamation with Graham Rowe, whose strategy of investing in local businesses they admired. However, their previous investments in nitrate, which tied up human and capital resources, limited their flexibility.

These problems meant that Gibbs had begun to make economies even before the sudden crisis struck the west coast at the end of 1929. They had already closed their car importing business, which involved granting long credit to buyers, limited the amounts that partners could draw on the firm, and cut staff numbers.[60] However, things did not improve. The manager of the Antofagasta railway commented early in 1930 that there Gibbs had 'so little work that they are willing to go to any lengths to obtain movement for their establishments'.[61] Gibbs thus considered a number of possible strategies. One was total or partial

55 Valparaiso to London, 15 Sep. 1924, file 11470/25; Valapariso to London, 10 May 1928; file 11470/28; Blair to H.F.J. Smith, 13 June 1928, file 16869/2, Gibbs/LMA.

56 Gibbs y Cía. S.A.C, Minutes of Directors Meetings, 1 Nov. 1950, file 16869/2, Gibbs/LMA.

57 Dobree to Blair, 26 Oct. 1927, file 16875/2, Gibbs/LMA. On the partners' debts, Blair to Lord Hunsdon, 14 Dec. 1928, file 16875/2, Gibbs/LMA.

58 Valparaiso to London, 26 May 1928, file 11470/28, Gibbs/LMA.

59 Fitzgerald to Cullen, 26 Nov. 1928 , file 16875/2, Gibbs/LMA.

60 Blair to Cullen, 14 September 1928; Blair to Hunsdon, 14 Dec. 1928; Cullen to Herbert Gibbs, 21 May 1929, file 16875/2, Gibbs/LMA.

61 General Manager, Antofagasta, to London, 7 Feb. 1930, 1930 Letter Book, Antofagasta Holdings. I am grateful to Robert Greenhill for this reference.

fusion of their Chilean interests with a British competitor, either Huths (who themselves collapsed in 1931), or Balfour Williamson. Despite commencing lengthy discussions with the latter over amalgamation of their interests in both Chile and Peru in 1931, they eventually worked together only in the north of Chile, where they merged their importing businesses in a joint venture, Gibbs Williamson, in 1933.[62] A second possibility was investment in local manufacture, suggested by a partner in Valparaiso shortly before the collapse of Graham Rowe in September 1931, either by starting an entirely new enterprise under the protection of import duties, or 'getting an interest in and reorganizing factories already established, and now being run on unremunerative or rather primitive lines owing to the want of capital or energy of their owners'.[63] The response of London was unequivocal:

> We are not prepared to continue in business in Chile unless the Coast partners are able to show us that there is a real prospect of making a profit there … It would appear that the next year or two in Chile must be extremely lean for all businesses, and that only those concerns which adapt themselves at once to the altered conditions will survive … As your bankers we are determined to put no further sterling into your business at any rate until the exchange restrictions are removed.[64]

In October 1932 the partners in Chile in fact began to discuss possible liquidation, before suggesting to London that they should retrench further by limiting their own income and not drawing any of their salary in sterling.[65] Overall, the firm seems to have struggled through the early 1930s, hoping against hope for a return of prosperity to the Chilean nitrate industry where they could again use their knowledge and networks to reconstruct their business. However, with capital limited and the termination of negotiations over fusion with Balfour Williamson in 1934, their new investments were piecemeal: some shares in manufacturing companies; a controlling interest in Graham Agencies, formed from the Chilean remnants of Graham Rowe; and a new mill for Cía Molinera California in Santiago in 1935.[66] The London partnership remained reluctant to sink further capital into Chile, and thus Gibbs' principal new venture on the west coast was a merger of their Lima house with an old established wool trading firm in Arequipa to form Gibbs Ricketts in 1936, an enterprise that very quickly turned sour as Gibbs proved unable to control their partner's decision-making, and found themselves financing heavy wool stocks to the tune of over £ 100,000 on a falling market.[67]

62 Walter Gibbs (London) to Dobree, 17June 1931; Dobree to Gibbs, 12 Sep. 1931; Gibbs to Dobree, 9 Oct. 1931, file 16875/3, Gibbs/LMA.

63 Dobree to Gibbs, 12 Sep. 1931, file 16875/3, Gibbs/LMA.

64 Sharman [?] to Blair, 29 July 1932, file 16875/3, Gibbs/LMA.

65 Blair to Walter Gibbs, 3 Oct. 1932, file 16875/4; Blair to Korn, 9 August 1935, file 16875/7, Gibbs/LMA.

66 Blair to Korn, 16 Aug. 1934, file 16875/5, file 16875/7; Gibbs y Cía. S.A.C, Minutes of Directors Meetings, 1 Nov. 1950, file 16869/2, Gibbs/LMA.

67 Blair to Korn, 2 Dec. 1935, file 16875/7; Korn to José Ricketts, 16 Apr. 1936, file 16875/8; Korn to Blair, 21 Sep. 1937; Korn to Blair, 23 Feb. 1938, file 16875/10; Korn to Blair, 20 April 1938, file 16875/11, Gibbs/LMA.

6.2. Balfour Williamson

Balfour Williamson also faced major crises during the inter-war period that threatened their survival, but overall they appear a more diversified, better managed firm than Gibbs, although they still lacked the resources to expand their business substantially and were vulnerable, until they incorporated in 1930, to the death or withdrawal of a partner (Hunt 1960). In part this balance of interests was due to their decision to return to Peru in 1903, far earlier than Gibbs, by taking an interest in a milling firm headed by Alexander Milne, to whom they had exported wheat from southern Chile. Milne's elder son, Frederick, proved to be an able entrepreneur who established a close personal friendship with Sir Archibald Williamson in London. With the Milnes, they successfully explored for oil in northern Peru, floating Lobitos Oilfields Ltd. on the Stock Exchange in 1908, and becoming the major oil traders on the west coast, where they built up a good business with the nitrate oficinas and railways (Miller 1982). They floated the Santa Rosa Milling Company in 1913, and subsequently merged Milnes' Peruvian interests and their own flour mills in southern Chile into it in 1924. Such enterprises, which always retained Balfour Williamson and their associated houses as agents, provided the firm with steady commission income. The same was initially true of their interests in nitrate, to which they came later than Gibbs, floating the Salar del Carmen company in London in 1896, as well as representing the Agua Santa Nitrate and Railway Company.[68] The firm also possessed extensive interests on the west coast of the United States and Canada through its associated house of Balfour Guthrie, located in San Francisco. Senior partners in London sat on the boards of several other firms, including the Bank of London and South America.

Like Graham Rowe and Gibbs, Balfour Williamson faced a serious crisis due to the volatility in commodity trades following World War I. Jones claims that in 1920 they made losses of £ 600,000 on trading in nitrate, wool and cotton, and then suffered a defalcation of around £ 700,000 in 1924 (Jones 2000: 93). The one positive in the early 1920s was that Milnes managed to sell the Puente Piedra sugar estate in Peru at the top of the market, offsetting £ 200,000 of their subsequent losses in cotton (Hunt 1960: 190). Certainly, the Bank of Liverpool and Martin's became rather concerned about their account: in May 1921 their overdraft reached £ 1,405,147, of which over £ 500,000 was unsecured. However, Balfour Williamson caused the bank less anxiety than Graham Rowe, since it estimated their total capital at around £ 3 million, in contrast to Graham Rowe, whose overdraft was thought to be around three times their capital.[69] Martin's board minutes do not refer to Balfour Williamson again during the 1920s, suggesting that the temporary accommodation from the bank allowed Balfour Williamson to overcome its immediate difficulties. The sale of the Compañía Molinera de Osorno to Santa Rosa in 1924 provided them with £ 100,000 in improved liquidity, according to Hunt, and in 1929 they invested £ 130,000 into a controlling share in Enrique Gibson Ltda., the leading wool merchants in Arequipa (Hunt 1960: 168-169).

---

68 *Stock Exchange Yearbook, 1919*, pp. 1721 and 2255.

69 Martins, Minutes, Book #13, 10 May 1921, BBA.

Balfour Williamson did not feel particularly exposed in commodities when trade contracted suddenly at the end of 1929, shortly before its transformation from a partnership to a limited company. However, by the time Lord Forres died in October 1931 the firm faced a serious crisis and depended on its bankers, Martin's in Liverpool and the Bank of Montreal in North America, to pull it through. In California Balfour Guthrie proved unable to issue debentures to refinance its investment in Crown Mills and relied on the Bank of Montreal rolling over its overdraft. In Chile it faced difficulties on two counts. First, the financial problems of COSACH meant that Balfour Williamson could not liquidate its holdings of COSACH bills, which were secured on unsaleable stocks of nitrate. In early 1935 these were estimated at about £ 125,000.[70] Second, in 1930 the firm entered into a road-building joint venture in southern Chile, primarily for the income it would receive as agents for supplying materials. By April 1931 the Chilean government, short of funds due to the collapse of nitrate, owed Balfour Williamson over £ 190,000 on this account. The imposition of exchange controls meant that when it did pay, in 8 per cent internal bonds, the firm was unable to remit and left holding bonds denominated in depreciating pesos (Hunt 1960: 186-209). Overall, it is clear that overdrafts from both the Bank of Montreal and Martin's were critical in providing the firm with liquidity to offset the funds locked up in Crown Mills, COSACH, and Chilean bonds, at the cost of the directors having to offer their own property in land and shares as security for the loans.[71] In the case of Martin's, at least, the firm's position appeared serious enough for the bank to monitor its accounts and forecasts on a monthly basis for two or three years in the 1930s, though it never felt compelled to intervene in the way it had with Graham Rowe.

7. Conclusions

Some have divided historians into 'lumpers' and 'splitters', those who take a broad view of issues and those who prefer more detailed research. In contrast to earlier work on British merchant houses on the west coast of South America, which has tended to generalise about their experience and emphasise 'macro' factors in explaining their difficulties and decline, this paper has examined each of the main houses individually. Clearly, earlier historians were correct to emphasise the merchants' vulnerability to the volatility of commodity trades; hardly surprisingly, those most exposed to the declining Chilean nitrate industry suffered on this score. Here several stakeholders miscalculated badly due to the volatility of demand and hence prices, its seasonality, and the difficulties of assessing the future of the industry: in the second half of the 1920s the Guggenheims, the Anglo South American Bank, Chilean entrepreneurs like Sabioncello and Baburizza, who between them owed the Anglo South American Bank over £ 1.5 million in 1931, and the Chilean state made much more serious

[70] Martins, Standing Committee Minutes, Book # 1, 14 March 1935, BBA.

[71] Martins, Standing Committee Minutes, Book # 2, 27 Feb. 1935, 14 March 1935, 11 July 1935, 19 Sep. 1935, BBA

mistakes than the British merchants (Miller and Greenhill 2014).[72] However, Gibbs, who had previously dominated the industry, especially in intermediating between production in Chile and distribution in Europe, miscalculated so badly in 1920 that the decisions of the London partners almost brought about the liquidation of the entire house. Indeed, it was only its own rapid response, in the form of retrenchment, and its close connections with the Bank of England that saved it at that point, and thereafter its role in the industry was dependent on the decisions of others. As one Gibbs' partner in London complained to his colleagues in Valparaiso in 1935:

> Profit on Gibbs &.Co's business depended practically entirely upon their Nitrate business and the business incidental to it such as Oficina management, shipping, merchandize (Import and Export) and so on; in fact it is right to say that Gibbs &.Co's organization was built up upon and remained upon Nitrate with the result that by a stroke of a pen on the signing of the Cosach Law, the Govt. itself not only destroyed your means of profit and even livelihood but also simultaneously caused very severe loss in the value of your Offices, Warehouses, launches and other properties … as well as to make your holdings of Nitrate grounds valueless.[73]

Whilst, with hindsight, one might expect this vulnerability in nitrate, the situation with regard to the two main Peruvian commodities where British merchants had significant interests is more surprising. Sugar, which was facing serious problems on global markets, seems not to have caused the merchants real difficulties. The trade was not seasonal, and advances could be covered by cargoes afloat and mortgages on plantations. Sugar did not really require them to have 'experts' on the coast, and contracts were long-term.[74] Cotton, in contrast, undermined both Balfour Williamson and Graham Rowe in 1920-21; the latter would have collapsed then without the support of the Bank of Liverpool and Martin's, and in the same crisis a smaller Liverpool cotton importer, J. Lionel Barber, did fail. The continued vulnerability of Graham Rowe to the Peruvian cotton trade, given that this was expanding through the 1920s and 1930s, may be surprising, but they seriously misjudged the business capacity of two leading entrepreneurs from whom they could not call in loans. Lock-ups in cotton and lack of liquidity overwhelmed not just the Lima house but the whole firm. It is noticeable that, compared to what we know of Graham Rowe, Duncan Fox became much more cautious about the trade in 1929-30, while Locketts were also doing little business by then.

The differing experiences of the merchant houses thus raises questions about their strategy, structure and organisation, and the ways they anticipated crises

---

72 The figures for Chilean entrepreneurs' debts to the Anglo South American Bank are taken from a statement dated December 1931, found in file C40/137, Bank of England archive.

73 Korn to Blair, 12 June 1935, file 16875/6, Gibbs/LMA. Gibbs & Co. was the name of the branch house in Chile.

74 Henry Kendall & Sons of London dealt with the Aspíllaga family, owners of the Cayaltí plantation in Lambayeque, for fifty years without ever having a permanent representative in Lima.

and responded to investment opportunities in the rapidly changing economies of Chile and Peru, in other words the quality of their management. The partnership structure of the merchant houses certainly made them vulnerable to the death or withdrawal of a partner, where the firm's resources would only be protected if the original partnership agreement had been carefully drafted or negotiations took place with a deceased partner's estate to allow repayment of capital in instalments, as in the case of Locketts and Duncan Fox in the 1920s. It is noticeable too that the collective overdraft of £ 200,000 that the Gibbs partners in Valparaiso had accumulated by the end of the 1920s due to their personal drawings effectively deprived it of funds for expansion, whereas, at much the same time, the active directors of Duncan Fox had over £ 40,000 deposited with it, providing the firm with additional working capital.[75]

Incorporation did not, however, necessarily provide an answer, if the organisation of the firm and its associates/subsidiaries remained unchanged. A clear principal/agent problem existed, dating back to the nineteenth century, where a subsidiary could in effect 'go native', with the partners on the coast working for themselves or losing sight of the broader picture: most merchant firms operated on a hub-and-spoke system, with considerable autonomy for the branches unless they required major investments. The case of Graham Rowe, where the uncontrolled activities of the Lima partners undermined the whole business, illustrates the clear dangers this approach involved. The Balfour Williamson group faced similar problems: Balfour Guthrie in San Francisco had significantly more autonomy than the Valparaiso house, threatening the entire group's survival through its lock-up in Crown Mills. On the other hand, autonomy might foment entrepreneurship, as in the case of Graham Rowe's Chilean subsidiary, whose partners' strategy of investing in local manufacturing firms had impressed Evelyn Baring in 1929.

It seems clear from these cases that there were two important elements in merchant house survival and growth: diversification, between countries and sectors, and liquidity, in other words minimising lock-ups in any one industry. On the evidence of their archives, Gibbs grasped both these points in the 1920s but lacked the human and financial resources to exploit them, having become locked in to nitrate and then gradually marginalised in the industry. With regard to business development, a third element was crucial: entrepreneurial talent in the subsidiaries, seen most obviously in individuals from outside the dominant families such as Frederick Milne (Balfour Williamson), Edgar Gubbins (Graham Rowe), who headed Graham Agencies in Chile after the parent firm's demise, or Edward Houghton (Locketts), though Archibald Williamson would also count as a dynamic businessman, at least until the final years of his life. In the case of Gibbs, in contrast, the entrepreneurial capacity to overcome problems seems to have been limited until they were able to shunt older partners aside after World War II.

The quality of management clearly varied. Both Graham Rowe and Balfour Williamson suffered significant losses as a result of their failure to use modern

[75] Blair to Lord Hunsdon, 14 Dec. 1928, file 16875/2, Gibbs/LMA; Midland Bank, Mr Parkes and Mr Lederer's Note of Discussion with Mr Fox and Mr Petrie, 28 April 1932, file 30/126, HSBC archive.

accounting and internal audit techniques in the 1920s. This was probably not something that changed fast: a former executive of Balfour Williamson told me in 2002 that when he joined the firm in the late 1950s very few of the senior managers were at all numerate and they had little knowledge of standard accounting techniques such as cash flow forecasts, or inventory management.[76] Second, the absence of much critical comment on the west coast about Graham Rowe, indeed the admiration of other houses for their strategy, suggests that firms had little real knowledge about their competitors' business and financial stability. It took a visiting Barings executive with broad experience to appreciate the depth of Graham Rowe's problems in Peru in 1929. Third, several key managers appear to have had problematic personalities, people who found it difficult to establish good relationships with colleagues or clients. As Evelyn Baring wrote from Lima with regard to the relationship between Graham Rowe and Coloma: 'Don Cesar [Coloma] cannot abide Woodhouse [Graham Rowe's senior partner in Lima] at any price, and I cordially agree with him. I have never met a nastier man, or one in whom I should have less confidence. Instead of being firm but polite he has been violent and rude'.[77] In the late 1940s Gibbs' partners in London complained incessantly about David Blair and Frank Dobree, the 'elder statesmen' in Valparaiso, who had run the firm in Chile since the early 1920s. However, their complaints went back twenty years. Lord Cullen spent some weeks in Chile early in 1929 and commented, in a long report to Herbert Gibbs, on the shortcomings of the Chilean management, describing Dobree as having 'lost none of his violent and brusque manner'.[78] Dealing with crisis certainly created problems and antagonism between him and Blair, the senior of the two, as each tried to protect himself against criticism from London.[79] Nonetheless, the senior partners in London remained loyal to the colleagues in Chile they had appointed in boom times, increasing the constraints on the firm's future development.

Few businessmen, as we saw in 2008, really anticipate a crisis and commence measures to avoid lock-ups and enhance their firm's liquidity. In such circumstances it is vital for senior executives to recognise the turn in events early and take appropriate measures. Even so, poor decision-making can make things worse, since the temptation for many managements which find profits slipping is to gamble rather than retrench, pushing the organisation further towards financial distress. Each firm obviously has its own 'memory' and its own priorities, and these will shape decisions. In the case of Gibbs in 1920-21 the parent house in London quickly recognised and took responsibility for the major error it had made in speculating in nitrate; as signs of the oncoming crisis intensified Herbert Gibbs ordered Valparaiso to take emergency measures to retrench. Gibbs was also quick to respond at the end of 1929 by shedding staff, cutting salaries, and restricting sterling payments to local partners. Balfour Williamson, too, apparently learned from its experiences in the early 1920s, moving from a strategy

76 Interview with Colin Armstrong, London, 22 Jan. 2002.

77 Baring to Mildmay, 17 Nov. 1929, file 203284, ING-Barings archive.

78 Cullen to Dobree, 21 May 1929, file 16875/2, Gibbs/LMA.

79 Dobree to Blair, 16 Dec. 1930; Blair to Dobree, 17 Dec. 1930; Dobree to Blair, 20 Dec. 1930, file 16875/3, Gibbs/LMA.

of expansion to curtailing its costs quickly in 1929-30 as the initial crisis bit. Unfortunately for the firm, in the entirely changed circumstances of early 1930, it did not fully anticipate the fiscal and foreign exchange crisis that was about to engulf Chile (but then few did), and committed itself to an entirely new activity, a road-building contract, which then locked up funds in depreciating pesos in the country. Whether Locketts were simply lucky in escaping from the commodity trades (nitrate, sugar, cotton) when they did in 1928, or read the situation more accurately than the other houses, it is difficult to ascertain. The reports they made to Midland Bank suggest that they probably diagnosed prospects in nitrate more accurately than others, but we do not know, in the case of the key decision, whether Sabioncello approached them over the purchase of the Liverpool Nitrate Company or whether they were actively seeking a buyer. Their decisions were certainly more astute than those of the Anglo South American Bank, which financed Sabioncello's purchase and made extensive new commitments to the industry, bringing about its own eventual demise (Joslin 1963: 264-273). The evidence of banking archives certainly suggests that the banks' financial support, which depended on trust between individuals, was critical to the survival of merchants at times of crises. The roles their partners played on the banks' boards –Fox at Midland Bank, Gibbs at Westminster Bank, Williamson at the Bank of London and South America– must also have provided both contacts and a broader appreciation of changes in the business cycle. This was where the Graham Rowe partners in Liverpool fell short. There is little sign that they learned from their problems in the early 1920s, they remained committed to cotton and two heavily indebted planters, they failed to reorganise their routines or to take greater control over their Lima subsidiary, and in the end they lost of the confidence of the bank that had supported them for a generation.

References

Albert, B. (1976). *An Essay on the Peruvian Sugar Industry, 1880-1920,* Norwich: University of East Anglia.

Barton, J. (2000). "Struggling against Decline: British Business in Chile, 1919-1933", *Journal of Latin American Studies* 32: 1, 235-64.

Blakemore, H. (1974). *British Nitrates and Chilean Politics, 1886-1896: Balmaceda and North,* London: Athlone Press.

Braun-Llona, J. *et al.* (1998). "Economía chilena, 1810-1995: estadísticas históricas", Pontificia Universidad Católica, Instituto de Economía, Working Paper #187.

Cavieres, E. (1988). *Comercio chileno y comerciantes ingleses, 1820-1880: un ciclo de historia económica,* Valparaíso: Universidad Católica.

Chapman, S. (1992). *Merchant Enterprise in Britain: From the Industrial Revolution to World War I,* Cambridge: Cambridge University Press.

Couyoumdjian, J.R. (1974-75). "El mercado de salitre durante la primera guerra mundial y la posguerra, 1914-1921: notas para su estudio", *Historia* (Santiago), 12: 1, 13-55.

Glaser-Schmidt, E. (1995). "The Guggenheims and the Coming of the Great Depression in Chile, 1923-1934", *Business and Economic History*, 24: 1, 176-85.

Greenhill, R.G. (1977a). "Merchants and the Latin American Trades: An Introduction", in Platt, D.C.M. (ed.), *Business Imperialism, 1840-1930: An Inquiry based on British Experience in Latin America,* Oxford: Clarendon Press, 159-97.

Greenhill, R.G. (1977b). "The Nitrate and Iodine Trades, 1880-1914", in Platt, D.C.M. (ed.), *Business Imperialism, 1840-1930: An Inquiry based on British Experience in Latin America,* Oxford: Clarendon Press, 231-83.

Greenhill, R.G. & Miller, R.M. (1998). "British Trading Companies in South America after 1914", in Jones, G. (ed.), *The Multinational Traders,* London: Routledge, 102-27.

Hunt, W.G.G. (1960). *Heirs of Great Adventure: Balfour Williamson, 1901-1951,* London: Balfour Williamson.

Jiménez, C. (1922). "Estadística Industrial del Perú", *Boletín del Cuerpo de Ingenieros de Minas* #105 (Lima).

Jones, G. (2000). *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries,* Oxford: Oxford University Press.

Joslin, D. (1963). *A Century of Banking in Latin America,* London: Oxford University Press.

Kindleberger, C.P. (1985). *A Financial History of Western Europe*, London: George Allen & Unwin.

Klarén, P.F. (1973). *Modernization, Dislocation and Aprismo: Origins of the Peruvian Aprista Party*, Austin: University of Texas Press.

Kynaston, D. (1999). *The City of London. Vol. III: Illusions of Gold, 1914-1945*, London: Chatto & Windus.

Larco Herrera, R. (1923). *Veintisiete años de labor en Chiclín: reminiscencias y apuntes*, Lima: Moral.

Marichal, C. (1989). *A Century of Debt Crises in Latin America: From Independence to the Great Depression, 1820-1930*, Princeton: Princeton University Press.

Mathew, W.M. (1981). *The House of Gibbs and the Peruvian Guano Monopoly*, London: Royal Historical Society.

Mayo, J. (1987). *British Merchants and Chilean Development, 1851-1886*, Boulder: Westview Press.

Mazzei de Grazia, L. (1990). *Sociedades comerciales e industriales y economía de Concepción, 1920-1939*, Santiago: Ed. Universitaria.

Miller, R.M. (1982). "Small Business in the Peruvian Oil Industry: Lobitos Oilfields Limited before 1934", *Business History Review* 56: 3, 400-23.

Miller, R.M. (1998). "British Free-Standing Companies on the West Coast of South America", in Wilkins, M. & Schröter, H. (eds.), *The Free-Standing Company in the World Economy*, Oxford: Oxford University Press, 218-52.

Miller, R.M. & Greenhill, R.G. (2007). "The Fertilizer Commodity Chains: Guano and Nitrate, 1840-1930", in Topik, S. *et al.* (eds.), *From Silver to Cocaine: Latin American Commodity Chains and the Building of the World Economy, 1500-2000*, Durham NC: Duke University Press, 228-70.

Miller, R.M. & Greenhill, R.G. (2014). "Business, the Chilean State, and the Changing Nitrate Commodity Chain, 1918-33", draft paper, presented to the 2014 Cain Conference, Philadelphia (available from author).

Mitchell, B.R. (1983). *International Historical Statistics: The Americas and Australasia*, Basingstoke: MacMillan, 1983.

Moran, T.H. (1975). *Multinational Corporations and the Politics of Dependence: Copper in Chile*, Princeton: Princeton University Press.

O'Brien, T.F. (1989). "Rich Beyond the Dreams of Avarice": The Guggenheims in Chile", *Business History Review* 63: 1, 122-59.

Pachas Castilla, R. (1976). "Economía y sociedad en el Valle de Chincha, 1860-1918", working paper, Lima: Universidad de San Marcos, Seminario de Historia Rural Andina.

Palma, G. (1985). "External Disequilibrium and Internal Industrialization: Chile 1904-1935", in Abel, C. and Lewis, C.M. (eds.), *Latin America, Economic Imperialism and the State: The Political Economy of the External Connexion from Independence to the Present*, London: Athlone Press.

Quiroz, A.W. (1993). *Domestic and Foreign Finance in Modern Peru, 1850-1950: Financing Visions of Development*, Basingstoke: MacMillan.

Sayers, R.S. (1976). *The Bank of England, 1891-1944*, Cambridge: Cambridge University Press.

Sunkel, O. & Cariola, C. (1982). *Un siglo de historia económica de Chile, 1830-1930: dos ensayos y una bibliografía*, Madrid: Instituto de Cooperación Iberoamericana.

Thorp, R. & Bertram, G. (1978). *Peru, 1890-1977: Growth and Policy in an Open Economy*, New York: Columbia University Press.