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**The history and practice of banking
in New Zealand**

Harry Dodgshun Bedford

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THE HISTORY AND PRACTICE OF BANKING IN NEW ZEALAND.

VOLUME I.

C O N T E N T S.

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PRINCIPLES OF ENGLISH BANKING CURRENT IN THE "FORTIES"

New Zealand became a Colony of the British Crown^{1.} in 1840. It received representative government in 1852. Before undertaking the history of banking in New Zealand, it seems advisable to give a short account of the principles of banking accepted in England at the time of the foundation of the Colony. A consideration of the current notions respecting the operations of banks will assist to explain the nature of the development of banking in New Zealand. No attempt is made to carry the account further here than is needful for this purpose. In the body of the thesis attention is occasionally drawn to other features of English banking that appear to have influenced local developments at subsequent times.

In 1827, Mr. J. W. Gilbart published "A Practical Treatise on Banking" which for many years held pre-eminence in .. banking literature. This was the book that was in every banker's hands, when banking houses were being established in New Zealand. I will, therefore, refer to it for a statement of the recognised functions of a bank. In Section 1 of part 1, we find a definition of the nature and business of banking :-

"A banker is a dealer in capital, or more properly a dealer in money. He is an intermediate party between the borrower and the lender. He borrows of one party, and lends to another; and the difference between the terms at which he borrows and those at which he lends, forms the source of his profit. By this means he draws into active operation these small sums of money which were previously unproductive in the hands of private individuals; and at the same time furnishes accommodation to those who have need of additional capital to carry on their commercial transactions.

The business of banking consists chiefly in receiving deposits of money, upon which interest may or may not be allowed; in

The representative provisions of the Act of 1846 never became operative

making advances of money, principally in the way of discounting bills; and in effecting the transmission of money from one place to another. Private banks in metropolitan cities are usually the agents of the banks in the provinces, and charge a commission on their transactions. In making payments many country banks issue their own notes.

The disposable means of a bank consist of - First, the capital paid down by the partners, or shareholders. Secondly, the amount of money lodged by their customers. Thirdly, the amount of notes they are able to keep out in circulation. Fourthly, the amount of money in the course of transmission - that is, money they have received, and are to repay, in some distant place, at a future time.

These disposable means are employed - First, in discounting bills. Secondly, in advances of money in the form of cash credits, loans or overdrawn accounts. Thirdly, in the purchase of government or other securities. Fourthly, a part is kept in the banker's till, to meet the current demands. Of these four ways of employing the capital of a bank, three are productive, and one is unproductive. The discounting of bills yields interest - the loans, and the cash credits, and the overdrawn accounts, yield interest - the government securities yield interest - the money in the till yields no interest."

Banks exercising such functions are commonly spoken of as banks of issue, deposit, and discount. They issue paper-money; they have deposited with them the money of a community; and the most approved way of lending out the money at their command is by the discount of trade bills with a currency of a few months.

Mr. H.D. Macleod in his "Theory and Practice of Banking" supplements Mr. Gilbert's definition of a banker by a more detailed and clear-sighted analysis. "A banker" he says, "is a trader whose business is to buy money and debts by creating other debts."

"A "Banker", therefore, always buys money with his own credit"

or, by giving in exchange a right of action to demand back an equal sum at any time: and, moreover, when he buys Commercial Debts, or discounts Commercial Bills of Exchange, as it is technically termed, he does it in exactly a similar way: in exchange for a Bill of Exchange he gives his customer a Credit in his books; or the Right to demand a sum of money from him. Thus he buys one Debt, or Credit, by giving in exchange for it another Debt, or Credit: and experience shows that his Credit may several times exceed the cash in his possession. Thus the business of a "banker" is essentially to create credit." ^{1.}

The importance of this analysis has been emphasised by the lines upon which banking has developed .. since the enactment of the Bank Charter Act 1844 and will appear when the practice is considered of the New Zealand banks after 1870. It will then be seen how ineffective was the principle underlying this Bank Charter Act to restrain the over-issue of money by banks.

At the time when banking facilities were first extended to New Zealand, a great controversy raged in banking circles around the question of the issue of bank-notes. The half-century preceding 1844 was marked by acute financial conditions in England. The country suffered from the evils of an unrestrained note-issue. Again and again, the foreign exchanges were unfavorable and the gold reserves imperilled. There was a monetary panic in 1794 when more than 100 banks were unable to meet the demand for gold, occasioned by the presentation for payment of enormous ... quantities of bank-notes. This was followed by a similar crisis in 1797 and the British Government then directed the Bank of England to suspend payments in cash except under certain strict conditions. In 1810 the market price of bullion

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was between £4.10:0 and £4.12.0 an ounce, while the bullion could be coined only at the rate of £3.17.10½ an ounce, indicating the depreciation of paper money because of its redundancy.¹ In this year, the House of Commons set up a "Committee to consider the high price of bullion." It was this Committee which issued the famous Bullion Report. The Report recommended that the Bank of England should resume cash payments, but the Statute providing for it was not passed until 1819, and the full operation of the Statute was deferred until 1st May 1823. Partial payments in cash were resumed in November 1816. In the year 1821 the Bank considered itself ready for complete payment and an Act was passed to permit it in May 1821 instead of in 1823. Trouble soon returned and shewed that the mere convertibility of notes was not sufficient to protect the country from over-issue in a time of expanding credit and commercial inflation.² In 1825 began a movement of speculation which culminated in a disastrous panic in 1825. During this movement the gold in the Bank of England greatly increased and its issues of notes greatly increased. But it was the excessive issue of the paper-money of the country banks, which, feeding the spirit of speculation, determined the magnitude of the calamity. In 1826 an Act was passed prohibiting after 5th April 1829 the issue of notes of smaller denomination than £5. Parliament appointed a Committee in May 1832 which enquired into the subject of banking and particularly into the regulation of the note-issue. The Charter of the Bank of England was renewed in 1823 with the addition of special provisions relative to the issue of bank-notes. Another committee of enquiry into the system of paper issues was set up by Parliament in March 1840. It was this Committee which adopted what is known as the "Currency Principle." This principle was embodied in the Bank Charter Act 1844 and has since governed the issue

1. It is now generally agreed that up to 1808-9 the premium on gold was an indication rather of the appreciation of gold than of the depreciation of the bank's notes. (See Foxwell, Preface to .. Andréadès, A History of the Bank of England, Page XVI; and Nicholson, Principles of Political Economy, Volume II pages 129-30.)
2. On the question of the sufficiency of convertibility see Pierson: Principles of Economics Vol. I pp 458 - 9.

1.

of bank-notes in England and British dependencies. Mr. Macleod has stated it as follows :- "That when Bank-notes are permitted to be issued the number in circulation should always be exactly equal to the coin which would be in circulation if they did not exist" Lord Overstone expressed the nature of the principle fully before the Committee of 1840 :-

"A metallic currency I conceive, by virtue of its own intrinsic value, will regulate itself; but a paper .. currency, having no intrinsic value, required to be subjected to some artificial regulation respecting its amount. The .. use of paper currency is resorted to on account of its greater economy and convenience, but it is important that that .. paper currency should be made to conform to what a metallic .. currency would be, and especially that it should be kept of the same value with the metallic currency, by being kept at all times of the same amount. Now the influx and efflux of bullion is the only sure test of what would have been the .. variations of a metallic currency, and therefore I conceive that that constitutes the only proper rule by which to regulate the fluctuations of a paper currency."

The opponents of the Currency Principle maintained that the issue of notes should be subject to no restriction other than that imposed by sound banking and convertibility on demand into gold. Good banking dictated that notes should be issued only to effectuate legitimate banking transactions and not to aid .. speculative enterprises. Subject to this limitation the .. issues of convertible notes should be permitted to expand with the needs of commerce. This is known as the "Banking Principle" and was upheld by Mr. Gilbert.

The foregoing short historical sketch indicates the prominence given to the matter of regulating the banknote issue. The extent to which this question bulked upon the attention of bankers and governments, when New Zealand was proclaimed a Crown

The "banking principle" was recognised by the Act only to the very limited extent implied by the "fiduciary" issue.

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Colony, will furnish the key to much of the Colony's banking history in the early years. The triumph of the Currency Principle, whether good or ill in its effects, saved England and her colonies from the danger of a redundant currency in the form of bank-notes. It is noticeable that the banking authorities of the first half of last century had no dread of the over-issue of other kinds of bank-credit. The evidence before the Committees of 1832 and 1840, reveals a remarkable lack of appreciation of the way in which the issue of money or credit may be increased by means of bills of exchange and cheques. No precautions against the over-issue of bank-credit in this direction were taken: the matter was left to the discretion of the bankers.

It thus appears that when New Zealand was colonised the generally accepted theory of banking in England was that of strict regulation of the issue of bank-notes upon the Currency Principle; and of freedom from State control of the other functions of banks. This English theory was adopted without question by the Government and bankers of New Zealand. As a consequence, New Zealand has never been subjected to an over-issue of Bank-notes, and no problems have arisen out of the circulation of the paper-money of banks. What calamities have overtaken banking in this Dominion have sprung from that sphere of banking which has been left free from effective external control. The banks of New Zealand have been guilty of prodigal excess of issue of bank-money but it has been in the form, not of bank-notes, but of book-credit operated on by cheque¹. It has been, of course, convertible credit, but generally not like notes convertible on demand. This convertibility has not prevented excessive issues leading to calamity.

1. See Laughlin, "Principles of Money", page 120.

The English principles of coinage in 1840 were the same as now. There was free and unlimited coinage of gold alone; silver and copper were token coins. Gold was the only legal tender for the discharge of debts upwards of £2; silver was legal tender up to 40/s and copper up to 12d. The English law with respect to coinage and legal tender was in force in New Zealand from the beginning.

It is well at the outset to indicate the sense in which the term "money" will be used in the subsequent enquiry. The monetary problem with which this thesis is exercised is with money as a medium of exchange. As such not only coin and bank-notes, but credit also is embraced in the term. Except where the context indicates the contrary, the word .. "money" will be used in the following pages to designate everything which acts as a medium of exchange of goods and services and a means of transferring wealth from hand to hand.

Although the issue of bank credit other than bank-notes was unimpeded by specific regulations delimiting its .. quantity, the Colonial Government from the outset sought to restrict banks to those channels of lending which are approved and laid down as legitimate by Mr. Gilbert. The following circular letter, forwarded in 1846 to New Zealand among the other British Colonies, sets forth the adopted policy respecting Colonial banks. The Regulations of 1840 referred to in the circular were not transmitted to New Zealand.

BANKING COMPANIES IN THE COLONIES:

(Circular)

Sir,

Downing-street 30th May, 1846

On the 4th of May 1840, Lord J. Russell transmitted to you a Copy of Certain Regulations, the observance of .. which, in all Charters or Legislative Enactments relating to the Incorporation of Banking Companies in the Colonies, Her Majesty's Government then considered of much importance.

The Correspondence which has since taken place on subjects of this nature, and the arrangements adopted by Parliament in regard to Banks of Issue in the United Kingdom, appear to her Majesty's Government to have rendered necessary some modification of those Regulations, with a view to bring them into exact accordance with the principles on these subjects established in this Country. I accordingly transmit to you herewith a series of Regulations, revised with that object, to be substituted for those of May 1840.

These Regulations are forwarded to you, not, of course as inflexible rules to be in all cases insisted on, but as embodying the general principles to be observed in the preparation of Colonial Acts for the Incorporation of Banking Companies; and Her Majesty's Government consider a compliance with all the more material conditions and restrictions as of much importance to the security of the Communities in which such Banks may be established, and more especially to the poorer classes of such Communities. I must, therefore, desire you to take care, that in any Ordinances or .. Bills introduced into the Legislative Council of the Colony under your Government, for the Incorporation of Banking .. Companies, these conditions and restrictions be inserted.

I have the honour to be, Sir,

Your most obedient Servant,

REGULATIONS and CONDITIONS for the OBSERVANCE of which PROVISION should be made in CHARTERS or LEGISLATIVE ENACTMENTS relating to the INCORPORATION of BANKING COMPANIES in the COLONIES.

1st. The Amount of the Capital of the Company and Number of shares to be determined; and the whole of such determined amount to be subscribed for within a limited period, not exceeding Eighteen Months from the date of the Charter or Act of Incorporation.

2nd. Shareholders to be declared a Body Corporate, with common seal and perpetual succession, and other usual corporate powers; and with any requisite proviso that judgment against the Corporation shall attach to all additional liability of the Shareholders, as well as to paid-up Capital and other property of the Company.

3rd. Provision to be made, either by Recital and Confirmation of any Deed of Settlement in these respects or otherwise, for the due Management of the Company's Affairs by Appointment of Directors, and so forth, so far as shall seem necessary for the security of the Public.

4th. No by-law of the Company to be repugnant to the conditions of the Charter or Act of Incorporation, or to the Laws of any Colony in which the Company's Establishment may be placed.

5th. The Corporate Body thus constituted to be .. specially empowered, subject to the conditions hereafter mentioned, to carry on for and during a limited term of years, (not to exceed Twenty-One Years unless under particular circumstances) and within the Colony or Colonies specified in the Charter or Act of Incorporation, but not elsewhere, the Business of Banker; and for and during the like term to issue and circulate within the said Colony or ..

Colonies, but in such manner only as shall not be at variance with any General Law of the Colony, Promissory Notes payable in Specie on Demand.

6th. Such Banking Business or Issue of Notes not to commence or take place until the whole of the Fixed Capital of the Company has been subscribed for, and a moiety at least, of the Subscription paid up.

7th. The remaining Moiety of the Capital to be paid up within a given period from the date of the Charter or Act of Incorporation, such period not in general to exceed Two Years.

8th. In all cases in which Shares in the Company's Stock are transferred between the period of the Grant of the Charter or Act of Incorporation and the actual commencing of business by the Bank, the responsibility of the original holder of the transferred Shares to continue for Six Months at least after the date of the transfer.

9th. The Company not to advance money on Security of Lands or Houses or Ships, or on pledge of Merchandise, nor to hold Lands, or Houses, except for the transaction of its business, nor own Ships, or be engaged in Trade, except as dealers in Bullion or Bills of Exchange; but to confine its transactions to discounting Commercial Paper and negotiable Securities, and other legitimate Banking Business.

10th. The Company not to hold shares in its own Stock, nor to make advances on the security of those Shares.

11th. The Discounts or Advances by the Company, on Securities bearing the name of any Director or Officer thereof, as drawer, acceptor, or endorser, not to exceed at any time one-third of the total Advances and Discounts of the Bank.

12th. The Dividends to shareholders to be made out of Profits only, and not out of the subscribed Capital of

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the Company.

13th. The total amount of the Debts and Liabilities of the Company, whether upon Bonds, Bills, Promissory Notes, or otherwise contracted, over and above the amount of Deposits on Banking Accounts with the Company's Establishments, not to exceed at any time three times the amount of the Capital Stock subscribed and actually paid up.

14th. No Promissory or other Notes to be issued for sums under £ 1. sterling (or in the North American Colonies £ 1. Halifax currency), or the equivalent thereof in any other local currency, and not for fractional portions of such Pound or other equivalent amount.

15th. All Promissory Notes of the Company, whether issued from the Principal Establishment or from Branch .. Banks, to bear date at the place of issue, and to be payable on demand in Specie at the place of date.

16th. The total amount of the Promissory Notes payable on demand, issued and in circulation, not at any time to exceed the amount of the Capital Stock of the .. Company paid up.

17th. In the event of the assets of the Company being insufficient to meet its engagements, the Shareholders to be responsible to the extent of twice the amount of their subscribed Shares (that is, for the amount subscribed; and for a further and additional amount equal .. thereto.)

18th. Suspension of Specie Payments on Demand at any of the Company's Banking Establishments, for a given number of days (not in any case exceeding sixty) within any one year, either consecutively or at intervals, or other breach of the Special Conditions upon which the Company is empowered to open Banking Establishments or to issue and circulate Promissory Notes, to forfeit those privileges,

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which shall cease and determine upon such forfeiture as if the period for which they had been granted had expired.

19th. The Company to make up and publish periodical Statements of its Assets and Liabilities half-yearly or yearly; showing under the heads specified in the .. annexed form, the average of the amount of its Notes in circulation, and other Liabilities, at the termination of each week or month, during the period of which the statement refers, and the average amount of Specie or other .. Assets that were available to meet the same. Copies of these statements to be submitted to the Government of the Colony within which the Company may be established; and the Company to be prepared, if called upon, to verify such Statements by the production, as confidential documents, of the Weekly or Monthly Balance Sheets from which the same are compiled. And also to be prepared, upon requisition from the Lords Commissioners of Her Majesty's Treasury, to furnish, in likemanner, such further information respecting the state or proceedings of its Banking Establishments as their Lordships may see fit to call for.

20th. The Charter or Act or Incorporation may provide for an addition to the Capital of the Company .. within specified limits, with the sanction of the Lords Commissioners of the Treasury; such additional Capital, and the Shares and Subscriptions that may constitute the same, to be subject in every respect, from and after the date of the signification of such sanction, to conditions and regulations similar, to those applying to the original Capital.

FORM of RETURN referred to in REGULATION No.19:

RETURN of the Average amount of Liabilities and Assets of
the Bank of the periods from (1st January) to ...
(30th June) 184 , viz., :--

LIABILITIES

Promissory Notes in circulation not
bearing Interest£

Bills of Exchange in circulation not
bearing Interest£

Bills and Notes in circulation bear-
ing Interest£

Balances due to other Banks£

Cash Deposits not bearing Interest£

Cash Deposits bearing Interest ...£

To Shareholders for Capi-
tal paid up£

To Ditto for Additions de-
clared to Shares (if
any)£

To Ditto for Dividends re-
maining unpaid (if any)
£

ASSETS:

Coin and Bullion ... £

Landed or other Prop-
erty of the Corporat-
ion£

Government Securities £

Promissory Notes or
Bills of other ...
Banks £

Balances due from
other banks £

Notes and Bills dis-
counted, or other
Debts due to the
Corporation, not
included under the
foregoing heads, and
exclusive of Debts
abandoned as bad £

Total Average Liabilities

£

Total Average Assets £

It would seem unnecessary to enlarge upon the wisdom of subjecting the business of banking to stringent regulation. While susceptible of competition, banking partakes somewhat of the nature of a monopoly. The magnitude of the resources required makes the entrance of competitors to established banks a *step not to be taken lightly, and if decided upon,* a step encumbered with exceptional difficulties. Furthermore, banks, as the custodians of the people's savings, the circulators of their own promissory notes, and the financiers of commerce, involve the whole community in any ruin that overtakes them. Thus the maintenance of the solvency of banks is among the first principles of statesmanship.

In laying the ground work of banking in the Colony, its legislators came to the task freighted with the deep conviction that upon them rested the paramount obligation to lift banks above the risk of failure. With the memory of banking disasters still green and with the mind furnished with the conclusions of the British Banking Committees, they addressed themselves to their great duty.

During the greater part of the first 20 years of the Colony's existence, the Government strove to follow the analogy of the Bank of England by separating the issue of notes from the other functions of banks. In 1847 a Paper Currency Ordinance was enacted which gave to the State the monopoly of the note-issue. All the wealth of the State was pledged to secure the convertibility of the notes, and adequate cash reserves were provided to ensure convertibility on demand. This seemed an invulnerable insurance against the recurrence of financial troubles such as had afflicted Great Britain. The State Issue Department did not succeed; but despite its failure

the experiment serves to emphasise the strong sense of obligation prevailing, to save commerce from calamities occasioned by banking indiscretions.

The complement to the Ordinance creating a Bank of Issue was an Ordinance of 1851 authorising the grant of .. charters of incorporation to banking companies of deposit and discount. The one Ordinance removed the perilous right of .. note-issue from private banks altogether, the other prescribed the conditions under which the other functions of banking should be discharged. It will be noticed that they follow the model regulations of 1846. A transcript of the greater portion of Section 2 of the Bank Charter Ordinance 1851 is appended:-

1. The amount of the capital of the Company shall be .. fixed and set forth in the Charter, and the whole of such fixed amount must be subscribed for within such a period as may be prescribed by the Charter, not exceeding 18 months from the date of the Charter.

2. The Bank shall not commence business until the whole of the capital shall be subscribed and a moiety at least of .. the subscription paid up.

3. The whole amount of the capital shall be paid up within such period from the date of the Charter, not exceeding 4 years, as shall in such Charter be prescribed in that behalf.

4. The debts and engagements of the Company must not exceed at any time three times the amount of the paid-up capital with the addition of the amount of such deposits as may be .. made with the company's establishment by individuals in specie or government paper.

5. Suspension of specie payments on demand at any of the Company's establishments for such period as may be prescribed in the Charter, but in no case exceeding 60 days within any one

year, either consecutively or at intervals, shall forfeit the Charter of the Company.

6. In the event of the assets of the Company being insufficient to meet its engagements, the shareholders shall be responsible to the extent of twice the amount of their subscribed shares (that is, for the amount subscribed and for a further and additional amount equal thereto)

7. The Company shall not hold shares in its own stock nor make advances on the security of those shares.

8. The discount or advances by the Company on securities bearing the name of any director or officer thereof as drawer, acceptor or indorser, shall not at any time exceed one third of the total advances and discounts of the Bank.

9. The Company shall not advance money on security of lands or houses or ships or on pledge of merchandize, nor hold land or houses except for the transaction of business, nor own ships, nor be engaged in trade except as .. dealers in bullion or bills of exchange, but shall confine its transactions to discounting commercial paper negotiable securities and other legitimate banking business.

10. The dividends to shareholders shall be made out of profits only, and not out of the capital of the Company.

11. The Company shall make up and publish periodical statements of its assets and liabilities at such times and in such manner as may be prescribed in the Charter of Incorporation, and shall, upon requisition from the Lord's Commissioners of her Majesty's Treasury or from the Governor-in-Chief, furnish such further information respecting the state or proceeding of its banking establishments as such Commissioners or Governor-in-Chief shall from time to time require

12. Every Charter of Incorporation shall contain such provisions and be made subject to such conditions as may for the time being be in force in that behalf under or by virtue of regulations to be prescribed by Her Majesty .. through one of Her Majesty's secretaries of State.

It will thus be seen that the leading principles embodied in the Bank Charter Ordinance are

1. That all the capital shall be subscribed and a moiety of it paid up, before the Banking Company commences business.

2. That the remaining moiety of the subscribed capital shall be paid up within a specified number of years.

3. That the debts of the Company shall be proportionate to the amount of the paid-up capital.

4. That the shareholders shall be liable to twice the amount of their paid-up shares.

5. That the Company shall not hold shares in its own stock nor make advances on the security of those shares.

6. That discounts to directors or advances on securities bearing the name of any director shall be limited.

7. That the Company shall be restricted in its operations to legitimate banking.

8. That dividends shall be paid only out of profits and not out of capital.

9. That periodically statements of assets and .. liabilities shall be published.

There were no banks incorporated under this Ordinance. No Company was found willing to carry on business under its provisions, while the right of note-issue was denied. The few years, however, succeeding the closing down of the Colonial Bank of Issue in 1856, saw the establishment of many banks in New Zealand and the general ..

principles of the Bank Charter Ordinance were applied. As the Ordinance gave no power to establish banks of issue it was necessary either to amend it and repeal the Paper Currency Ordinance 1847 or pass a special Act for each bank. The latter course was adopted. But, although the Ordinance thus became a dead letter, the principles embodied in it were adopted in the several special Acts. This will appear when I consider the Act incorporating the Bank of New Zealand. The Bank ... Charter Ordinance may be said, therefore, to lay down the ... policy of New Zealand with respect to banks of deposit and discount.

COMMERCE WITHOUT BANKS:

In 1840 the Union Bank of Australia opened a branch in Wellington and in the same year the New Zealand Banking Company opened an office in Kororarereka. Thus in the year of the proclamation of New Zealand as a Colony of the British Crown, a measure of banking facilities was afforded to the provinces of ... Auckland and Wellington. For many years, however, the number of bank offices in the Colony could be counted on one hand and the commerce of scattered settlements had to be carried on without the aid of banks. The province of Otago was particularly embarrassed from this cause. The colonisation of Otago was begun by the Otago Association, 23rd March 1848, the date of the arrival of the first emigrant ship. From that time until 3rd January 1857, when the Union Bank opened a branch in Dunedin, Otago was without a bank. In the meantime, this Province had grown considerably. In 1857 the population of Otago was approximately 4,000 and its total export and import trade was £103,099. Obviously a good deal of business was transacted for many years independently of banks. But long before the establishment of any banks at all in New Zealand there was a considerable volume of trade, which necessitated some form of money. I propose to sketch, shortly, the history of exchange in New Zealand unaided by banks.

THE MAORI'S:

The aborigines of New Zealand are a colored race called Maori's. Prior to the advent of Europeans they had not even the rudiments of trade. The communal system prevailed. Cultivation, fishing, and the other means for providing for the wants of the tribe were carried on by the tribe as a whole under the direction of the Chief. To a limited extent individuals rights were recognised. A warrior might have his little fishing ground

or eel-weir, or his allotment of forest for hunting. But there was no exchanging of products except by way of "presents."

When the "presents" were exchanged there was no attempt to arrive at an equivalence of value. Every tribe had its common stores of dried fish, fern root &c., the Chief being the distributor of the fruits of industry as he was the director of the productive efforts. If there was a shortage of food all the members of the tribe suffered together and equally. Thus money was not .. needed and did not exist in the internal industrial economy of the tribes.

"Prior to the land^{ing} of the Europeans there was but little private property. The land, the fields, the food preserves were held in common under the mana of the Chief. The property of the individual was confined to articles of dress, weapons, and perhaps his whare, but even these the Chief could possess by calling them his heart or hand. Thereupon they became tapued to him and no native dared to use such things again for the tapu of the Chief would slay him."^{1.}

Neither was money used in the inter-tribal relations. Hostile tribes would steal from each other and friendly tribes would give "presents". But there was no systematic exchange of "presents".that could be called barter or trade. Mr. Thomson in his "Story of New Zealand" says that in 1780 the Maories were^{2.} destitute of money.

1. "Canterbury Old and New" page 156

2. Volume 1 page 241

THE WHALERS:

The Maories were initiated to the customs of trade by the whalers who began to frequent the northern parts of New Zealand in the early years of the last century. Nothing like regular .. commerce was developed until the Maories discovered the effectiveness of firearms. In May 1821 Commissioner Bigge held in England an enquiry concerning New Zealand. A full report of the evidence taken is given in Dr McNab's "Historical Records of New Zealand"^{1.}

The following are a few of the questions and answers arising out of the examination of Ensign McCrae of the 84th Regiment who had spent ten months in New Zealand :-

"Upon what terms do the whalers sell their fire-arms and gun powder to the New Zealanders?"

"They sell them for pork and potatoes and for spars if they want spars for their vessels."

"Is there any fixed price?"

"None. It used to be 25 hogs for a single musket. The .. price is now generally 15 or 200 baskets of potatoes."

"What are the usual articles they exchange with the whalers?"

"Pigs, potatoes, wood, fish and curiosities. The Maories .. shewed almost exclusive preference for muskets. Food was often unprocurable by anything else."

"How was the labour then of the natives in cutting and drawing timber to the ship paid for?"

"I believe that the cutting of the timber was paid for in axes. The natives had not strength nor indeed the inclination on such terms to draw the timber when it was cut."

The following authentic story will explain the ...
2.
eagerness of the natives for fire-arms :-

1. pp 540 and Seq.

2. "Story of New Zealand by A. S. Thomson - Volume 1 pp 258 - 9

In 1822, a famous Chief, Hongi, embarked in his war canoes on an expedition of conquest. Many of his men were equipped with fire-arms which he had obtained in his intercourse with the Europeans. This enterprising warrior had visited .. England in 1820 accompanied by Mr. Kendall, a missionary. He obtained valuable presents there and exchanged them for 300 muskets. Needless to say, his campaign against the unarmed tribes was uniformly successful. The Maories were not slow to appreciate the cause and immediately there was an urgent demand throughout New Zealand for fire-arms. Hongi's victories shewed the whole native race that the possession of guns and powder was absolutely necessary for self-preservation. Every adult male endeavoured to obtain a musket and European traders were besought to bring to the country guns and ammunition. New Zealand had abundant supplies of flax which was a highly valued article of commerce. The sudden demand for fire-arms offered an opportunity of establishing a very profitable trade. Trade became more or less regular and was no longer abandoned to the occasional visits of whalers for .. the purpose of refitting or obtaining provisions. Several vessels were forthwith fitted out at Sydney to carry to New Zealand guns and powder and bring back flax and other goods. In 1829, whale oil, flax, timber, pigs and potatoes to the .. value of £135,486 were exported from New Zealand. The imports offered in exchange were of trifling value comparatively. During the fourteen years ending 1839 goods to the average .. value of £30,000 per year were imported. In the last six .. months of that year no less than 75 ships called at the Bay of Islands. A few muskets purchased a ship load of flax, and a fig of tobacco, sixty pounds of potatoes. By 1834, however, the Maories began to understand somewhat of the ..

European value of the articles they were selling and drove harder bargains. Up to 1840 the demand of the natives was chiefly for instruments of war but from that date they sought eagerly other articles such as blankets, shirts, tobacco and spades.

One consequence, horrible in the extreme, of the trade between the Maories and the Europeans, was the purchase of munitions of war with native heads.^{1.} The Maories were accustomed to preserve the heads of their Chiefs. Preserved heads were .. naturally much prized in European museums and commanded a high .. price. A tribe would not dishonour itself by selling the head of its chief, but the purchase of a gun by the head of an enemy seemed an easy and meritorious way of obtaining power in battle. Very soon the trade became systematised and the slaves of war .. were killed in large numbers to provide the heads to buy the goods of the traders. These heads were frequently hoarded like money and indeed for a while formed a kind of currency displacing in a measure the simple method of barter. They became a species of money, because the Maories discovered that heads were generally acceptable to traders. For the most part,^{2.} however, the early trade with the Maories was one of pure barter. The disgraceful traffic^{in heads} was made illegal in 1836 by proclamation of Governor Darling of New ...^{3.} South Wales.

PAYMENT OF WAGES.

The method of paying the wages of the sailors and those engaged on the whaling and trading excursions to New Zealand deserves a little notice.

Commonly the agreement with the men engaged for whaling was that they should be paid by a certain proportion of the product of

1. Brett's Historical Series: Early New Zealand., p. 336
2. "New Zealand" by Dr. Martin p. 74
3. Sydney Government Gazette - April 16, 1831

the expedition. But even where wages were fixed and stipulated beforehand, payment was almost invariably postponed until the fruits of the enterprise were obtained. In the meantime, credits were given to the labourers on which they could draw upon storekeepers for necessaries. Sometimes the credit was given by the storekeepers themselves, but often by the agents of the whaling merchants whose credits were recognised by the storekeepers.

John Tawell was a well-known Sydney merchant engaged extensively in whaling. His custom was to pay his men in the first instance in his own promissory notes payable to bearer which were readily accepted by New Zealand storekeepers, and circulated as currency until their redemption. A specimen of one of his £5 notes is given in Brett's "Early New Zealand"^{1.} The following is a copy of a tradesman's note the original of which is to be found in the Hocken Library Dunedin.

"16th May 1826.

Hobart Town.

No. D 259

ON DEMAND I promise to pay the Bearer

T H R E E P E N C E

in Spanish Dollars at 5/s each.

Thos. Kaye.

Liverpool, Street."

Tradesman's notes of this kind circulated in New Zealand. The adjustment of liabilities took place at the end of the whaling season when the Sydney merchants sent to New Zealand a ship laden with various kinds of produce, chiefly spirits and tobacco. The men then received in quantities of these articles the wages to which they were entitled. To the extent to which they had transferred their credit with their employers to local storekeepers their payment was reduced. On the arrival of the ship

storekeepers and others with claims against the men in the .. form of I.O.U.s and promissory notes would present them for .. liquidation. Thus wages were paid and trade conducted almost entirely without the use of ^{metallic} money. Indeed in the early days of whaling in New Zealand there was practically no money in circulation. Between the whaling seasons the men would be held at the stations by means of credits granted by their employers to enable them to obtain the means of livelihood.^{1.} Gradually cash began to filter in from New South Wales and payments were then made partly in cash and partly in goods. For a long time, however, the whaler who took cash was a novelty and any .. hoarding of it, as it excited the cupidity of his fellows, was far from safe. Mr. Shortland relates that he came across an exceptionally thrifty man in Waikouaiti in 1844 named Stephen Smith. Smith had taken his wages in money and had concealed it in various holes dug in the ground.

TRADE BETWEEN THE SETTLERS AND THE MAORIES.

One outcome of the visits of traders and whalers was the establishment of small European settlements. Many traders .. adopted the practice of leaving a representative in New Zealand to prepare for their return trip. By 1820, most tribes sought a resident "pakeha" trader,^{2.} who often became the nucleus of a settlement. These men brought with them coin from New South Wales and America and introduced the Spanish Dollar and the .. American Dollar among other coins. The trade, however, between the European settlers themselves and between them and the Maories was conducted chiefly on the principle of barter with a tendency

1. "The Southern Districts of New Zealand" by Edward Shortland ps.108-112 and Brett's Historical Series early New Zealand p. 159
2. "History of Taranaki" by B. Wells. p.150

for such things as tobacco, rum and "heads" to become a ..
 currency for the reason that there was a general demand for
 them. "Tobacco, guns and ammunition were a favoured ..
 medium of exchange and because of their ready acceptance by
 the Maories were used to some extent as money among the ..
 Europeans."^{1.} Instances of the use of such things as
 money and of the employment of barter are found before 1840
 and also after in places where there was no bank. In 1841
 a Mr. Carrington bought land from the natives in New Plymouth,
 agreeing to pay in tobacco. An instance on a colossal
 scale of the barter which so widely prevailed in the trade ..
 with the Maories is furnished by the payment made by Captain
 Wakefield for the land of the European settlement at Nelson.
 The payment was made under the guise of "presents" to the ..
 native chiefs for anything corresponding to bargaining was ..
 offensive to the traditions and the dignity of the Maories.
 Nevertheless, the Maories after a few dealings with the Europ-
 eans began to demand "presents" such as in their view were of
 a value equal to what they parted with. To one chief, for
 the lands about Wakatu, was given 10 blankets, 1 felling axe,
 1 squaring axe, 1 cwt. of tobacco, 300 pipes, 1 keg of powder,
 1 double-barrelled gun, 1 pair shoes and 1 cwt. of biscuits,
 of the total value of £24.19. 3. Similar consideration to
 the value in all of £980.15.0 was paid, to the various chiefs
 interested, for the whole extent of the land of the Nelson ..
 Province. A large land transaction of the like kind was ..
 effected in Banks Peninsula, Canterbury, where in 1837 Captain
 Hempleman purchased what is now the town of Akaroa from Bloody
 Jack, the agent of the Maori owners. The purchase was made
 by the payment of "one big boat, by name the Mary Ann includ-
 ing two sails and jib"^{2.}

1. "Jubilee History of Nelson" by Mr. Justice Broad at p. 38
2. "Stories of Banks Peninsula" by H. C. Jacobson at p. 62.

In the collection "Emigrants Letters 1841" in the Hocken Library is an interesting communication dated 28th June 1840 of one John Pierce of Port Nicholson to one T. C. Salt of Birmingham. The letter refers to the conditions of exchange in domestic trade. "I had when we landed, only 50/s in the .. world, (besides the few goods) in two whole sovereigns and one half in Birmingham money. My heart almost sank within me; but it has never been so low since that day. The next day, the 8th March, I bought a pig weighing 40 lbs. for a yard of calico which cost me only 2½d. in Birmingham. Today I bought lots of potatoes by the yard; that is to say, they put baskets of potatoes in rows and gave me a yard of baskets for a yard of calico. I also bought two pigs for one blanket and one of those gowns for which Mrs. Pierce gave 1/9 each.....I went on buying potatoes and pigs, until we had not a blanket, rug, print, or calico in .. the house." The writer goes on to relate how he sold these .. pigs and potatoes for money to visiting ships and was enabled on the first day of opening of the Union Bank (1857) to deposit ... £50 in coin and draw out the first lot of bank-notes, being Fifty £1 notes.

Barter was common also in the commercial relations of Europeans among themselves. In Otago the stores were the market places for transactions by barter. Mr. James Barr in "The Old Identities" refers ^{1.} to the wives of Taieri settlers going into the stores in Dunedin to exchange eggs and butter for clothes and groceries. "Monetary transactions were conducted through the storekeepers - not a very convenient method - until a branch ^{2.} of the Union Bank was opened in 1858" The same trouble was experienced in other provinces giving rise early to the development of the use of forms of trademen's paper money to make up for

1. page 47

2. "A sketch of Otago" by Jas. McIndoe; The Bank was opened in 1857 not 1858.

the deficiency of coin and the absence or shortage of bank money.

TRADERS' PROMISES AS MONEY:

"One of the troubles of this time was the absence of coin; labour and produce had to be paid for by goods and barter that is so much flour, or sugar or an I.O.U. of the party receiving the labour or produce. These I.O.U.s were passed from one to another then back to the original issuers of them."^{1.}

In time the Maories were induced to accept forms of paper in payment for things sold. Mr. W. Tyrone Power records in his "Sketches in New Zealand"^{2.} that he had occasion at Wainui to purchase 3,000 lbs of pork and 300 baskets of kumeras from the Maori Chief Urumutu in 1846. He had no money but Urumutu was perfectly satisfied to accept a cheque payable at Porirua or Wellington.

The use of paper money, issued by persons and firms, spread rapidly after the Government of the Colony set the example in 1844 of employing debentures as a currency. This matter is fully dealt with in a subsequent chapter, but reference must be made here to the paper money circulated in Otago prior to the opening of a bank in the Province. The other leading Provinces, Auckland, Wellington and Canterbury, obtained a bank at the time of or soon after their founding. Otago had to wait nearly ten years. During that period, its leading men never ceased to advocate the establishment of a bank. Mr. Jas. Macandrew, a large storekeeper, was the most prominent in this agitation. He endeavoured to promote a bank of Otago and to that end issued 2nd August 1851 a prospectus of a proposed Otago Banking Company. He had previously conducted a correspondence in the Otago Witness^{3.} urging the establishment of a local bank on the Scotch system. In the same year he obtained bank-notes for the Otago Bank from England for sums of 10/s £1 and £5. The capital of the Bank was

1. "Canterbury Old and New" by Wm. Reece at p. 21

2. Page 27.

3. 19th April 1851.

fixed at £20,000 in £10 shares. The proposal was warmly approved by the Otago Witness which not only emphasised the shortage of money but referred to the fact that what there was was being hoarded in "teapots and stockings"^{1.} The promoters, however, found an obstacle in the Bank Charters Ordinance of the Colony 1851 which required the whole of the subscribed capital to be paid within 4 years of the date of the Charter. Compliance with this provision was found impossible in a community so sparsely populated and of such slender resources. To meet this difficulty a second prospectus was issued and the capital reduced to £7,500. "But further difficulties were in the way, and all application to the Governor for sanction was unavailing. It was shrewdly suspected that the provisions in the ordinance, and in an amendment which speedily followed; had been cleverly and covertly devised to prevent all rivalry with the Government paper currency of the Bank of Issue, and with the monopoly enjoyed by the Union Bank. Thus the crimp bank-notes remain to this day useless and unsoiled. This circumstance was viewed as another grievance, another instance of indifference to the public convenience."^{2.}

Hindered in this enterprise, Mr. Macandrew turned his attention to the provision of notes of his own to be used in the payment of produce supplied to the store of his firm. He managed to induce a large number of business men to support his scheme. He received a requisition to issue notes signed by forty well-known men. The requisition and Mr. Macandrew's compliance was published in Otago Witness, 30th October 1852. The following is the main portion :-

"To Messrs. Jas. Macandrew & Co.

Gentlemen,

We the undersigned applicants for shares in the Otago Banking Company and others interested in the progress of the settlement, feeling that there is little chance of ..

1. 2nd August 1851 - 2. Contributions to the Early History of N.Z. (Otago) by Dr. Hocken at page 136.

the Otago Banking Company obtaining a Charter until the sitting of a popular House of Representatives - and seeing that in the meantime the settlement is suffering serious injury from the want of a circulating medium in some degree proportionate to the actual wealth of the Colony and to the requirements of industry - beg respectfully to suggest that in the meantime and until the proposed Bank is fairly started your firm might to a great extent obviate the depression which industry is now suffering under by adopting the system which has been found to work well in other settlements. We mean that of issuing Promissory Notes for small amounts at short dates, it being generally understood that they would at any time be taken as cash in payment of goods and produce at your store "

There was at once considerable stir among local traders and John Jones the most powerful commercial rival of Macandrew & Co. forthwith engineered a petition to the Governor expressing the dismay of the signatories at the creation of paper money by which they opined would be the "means of destroying that confidence in mercantile transactions which has hitherto existed in Otago" The petitioners condemn the notes as being the creation of a "false capital" and the introduction of the "truck system" and call upon His Excellency to adopt such measures without delay as would put an end to so intolerable a grievance being inflicted on the Settlers in Otago.^{1.} At the same time Mr. Jones induced 16 storekeepers and dealers to advertise in the public Press that they would not accept the notes in payment.^{1.}

Macandrew & Co. issued £1 notes and their step was approved by the Otago Witness which urged the acceptance of the notes until proper banking facilities should be afforded. It pointed out the impediment to progress occasioned by the absence

1. Otago Witness November 6, 1852.

of credit instruments. "As matters at present stand, if it costs a flockmaster £100 to shear his wool, or a farmer £100 to gather his harvest, he must retain that amount idle from seed - time to harvest to meet his expenses at the end of the year." ^{1.}

In a letter to the Witness of August 13, 1853 Macandrew & Co. alleged that nearly one-third of the ordinary circulation of Dunedin consisted of their notes and that they were pressed to issue more than they had done. It is to be observed that the notes were not payable on demand but at short periods although they commonly circulated after their due date. The .. notes continued to circulate to the advantage of the community until the opening of the Union Bank. For a while they excited the bitterest opposition from a small but persistent body of residents. On one occasion the feeling aroused by them precipitated a disturbance in which one of the prominent adherents of Macandrew & Co. got his shins skinned. From that time the notes were frequently spoken of as "shin-plasters." "Mr. John Jones, a .. rival storekeeper, was the head and front of the opposition to the notes. A crafty but unsuccessful attempt was made by Mr. Jones to "break the Bank". He secretly accumulated the notes from all quarters to the amount of some thousand pounds, and then, with pockets well stuffed, repaired to his friends' store, asking for an adjustment of accounts. With equal wariness and secrecy Macandrew & Co had accumulated sovereigns which were lying in .. readiness for this expected day. The reply that there was no .. account between them was triumphantly met by Mr. Jones unloading pocket after pocket and asking for gold instead. To his chagrin and dismay, bag after bag of sovereigns was counted out until his last demand was satisfied, and then he was quietly asked if had "any more." A peace was patched, and shortly afterwards Mr. Jones thought it to his advantage to issue his own notes. This

he did, making them payable three days after date at Dunedin or Waikouaiti. They were engraved at Melbourne in a sumptuous bank note style, in great contrast to his rival's homely pieces of paper. This mode of financing was not superseded until .. 2nd January 1857, when the Union Bank opened a branch in Dunedin under the management of Mr. Alfred Jackson, and so inaugurated a proper state of finance.^{1.}

The shortage of money and the absence of banking .. facilities made it difficult to undertake enterprises requiring much capital. The rate of interest on borrowed money was exceedingly high. "The price of money was a serious drawback to the progress of the Province, interest as high as 20% being required on loans where ample security for the principle was .. given."^{2.} There were a number of instances of interest charged at 40%. The difficulty of obtaining capital and the lack of an intermediary like a bank for the collection of small sums of money from those who could not employ them in order that the money might be lent out in larger sums to those who wanted capital, led to .. the establishment of investment Companies to carry on industrial undertakings on a co-operative plan. The following extract from the prospectus of the Otago Sheep Investment Company gives an indication of the expedients resorted to in order to obtain capital. "The object is by means of combination of capital to facilitate .. the endeavours of those who may desire to become flock owners but who have not the means of purchasing a sufficient flock or of .. affording the expense of a separate shepherd."^{3.} £1 shares were to be issued and with the money raised land was to be purchased and stocked with sheep. Many similar forms of ... collective enterprise are to be found in those early days of Otago.

1. Contribution to the Early History of New Zealand (Otago) p. 137.

2. "A Sketch of Otago" by Jas. McIndoe

3. Otago Witness, 6th January, 1855.

CHAPTER III.

EARLY BANKING in NEW ZEALAND:

The earliest reference to banking in New Zealand is contained in a prospectus issued in January 1839 by Mr. John Crawford a Solicitor of Paisley Scotland. He endeavoured to found a New Zealand Bank and Colonisation Company and to that end published a prospectus of which the following are .. the important portions:

"The New Zealand Bank and Colonisation Company".

The attention of persons interest^{ed} in the highly important subject of Colonisation, has been much directed of late to the islands of New Zealand, which, it is allowed on all hands, present, in point of climate, soil, rivers, harbours, indigenous productions, and other natural advantages, one of the finest fields for British Colonisation in the .. world. Already there are about 2000 English persons resident in the country, and trade to a considerable extent is carried on. The excellent adaptation of the Country for a British colony has been shown by various writers who have published accounts of New Zealand, and it has been fully proved by the evidence adduced before a committee of the House of Lords .. during last session of Parliament.

The business of the company will be to freight vessels for the convenience of Emigrants - the acquisition of land, either for re-sale, or agricultural, or grazing operations - the erection of stores, saw mills, and other works, such as, though obviously of the greatest necessity in the infancy of a new colony, individual enterprise would not be likely to undertake; but its business will principally consist in lending money to the Government of the colony if required, and making advances to private individuals on the .. security of real property - deposit of Title deeds - and other securities, so as to aid the settlers in their operations in

the new land to which they have transferred their industry and enterprise. By undertaking also such agencies, exchange and commission transactions, as will be likely to prove profitable, business to a considerable extent may be transacted at Home.

Correspondence will be opened and agencies established with the different banks in Australia, the East Indies and the Cape of Good Hope, betwixt which places, as well as the mother country, and New Zealand, a great intercourse, and very likely by means of the speedy establishment of steam communication, may be expected to spring up.

When it is considered what mighty engines for the improvement, advancement and civilisation of countries, well regulated and properly managed Banking Institutions are the present scheme is not only likely to prove a highly profitable undertaking advancing with the growth and prosperity of the colony; but by the statesman, the political economist and philanthropist, it cannot fail to be viewed as fraught with the deepest interest and most important results, conducing as it will do, to create a new field for the application of British capital - a new market for our manufactures increased employment for our shipping - while enterprise and activity of all kinds will be brought in to play.

The head establishment will be in London, and the Company will be under the management of ten directors, whose qualifications will be the possession of 25 shares each. Shares will be reserved for most of the principal towns and seaports in the kingdom, where local committees will be formed, so as to give a general interest in the affairs of the Company, and attract emigrants to the field of its operations from all parts of the country. Shares will also be reserved and allotted for a certain number

of years at par, to all parties settling in New Zealand, so as to operate as an encouragement in favour of early emigration to the Colony."

The prospectus is significant as indicating the kind of assistance that the plantation of a colony in New Zealand required of the mother country. Colonisation .. could be promoted successfully only when supported by the aid of monetary facilities such as banks and loan companies are able to afford. The intention was to establish an organisation which should discharge all functions incidental to the prosperous settlement of people in a new country. Such a company under the name of "The South Australian Company" had rendered great service to colonisation in Australia and had added to its operations the business of banking.

Mr. Crawford's activities were not rewarded with success along the lines he first proposed but the New Zealand Company which colonised Port Nicholson and associated with itself the Union Bank, and the New Zealand Banking Company of the Bay of Islands may be regarded as the outcome of the agitation which he helped to forward. He subsequently endeavoured but without success to found a banking Company to be called "the New Zealand Banking Company". A prospectus was issued but the Union Bank was already established in Port Nicholson and The New Zealand Banking Company of the Bay of Islands was about the same time projected - thus meeting the immediate needs of the only two important settlements of the time.

With the latter bank John Crawford became directly associated in 1841. In that year he wrote to the directors proposing that British capitalists be invited to become .. proprietors and at the meeting of shareholders which considered the letter it was resolved that 700 shares be ...

alloted to Mr. Crawford and that an additional 2300 be entrusted to him for disposal in Great Britain.¹

Colonisation in New Zealand on any systematic plan began with the formation in 1838 of The New Zealand Company promoted in England for the purpose of purchasing land from the natives and settling colonies of British emigrants upon them. On the 22nd January 1840, the first body of immigrants arrived and founded the town of Britannia at Port Nicholson shortly afterwards: in November of that year called Wellington. On the 29th January of the same year Captain Hobson went to the Bay of Islands authorised by Her Majesty to proclaim, with the consent of the natives, the sovereignty of Queen Victoria over the islands of New Zealand. The acquiescence of the natives was signified in the Treaty of Waitangi and New Zealand was then constituted a dependency of the colony of New South Wales. It so remained until 3rd May 1841 when it was proclaimed a separate colony. The seat of Government was established at Auckland and in the year 1841 there were upwards of 200 houses in that town. Other settlements quickly followed in Nelson and New Plymouth. On 23rd March 1848 arrived the first ship of emigrants went out by the Otago Association for the founding of the Otago settlement at Dunedin. On 16th December 1850 arrived at Port Cooper the first emigrant ship despatched by the Canterbury Association, and Christchurch was settled. From its foundation Wellington received ... assistance to its incipient commerce by the banking facilities afforded by the Union Bank of Australia which opened a branch in Port Nicholson on March 28, 1840. It was established under the aegis of the New Zealand Company. This enterprising Company of colonisation was instrumental in .. the supply of two important adjuncts of civilisation and

1. The N.Z.Govt.Gazette February 1841.

progress at a time which synchronised with its first settlement. One was a bank and the other was a newspaper, "The New Zealand Gazette". The first issue of this paper was published in London August 21, 1839 shortly after the departure of the first emigrant ship from Gravesend. It contained on the first page an important notice concerning the Union Bank :-

"The Directors of the New Zealand Company hereby give notice that they have effected an arrangement with the directors of the Union Bank of Australia in pursuance of which a Branch of the Union Bank will be established forthwith on the Company's first and principal settlement.

The Directors therefore recommend to the Colonists the Union Bank of Australia as a means of effecting their pecuniary transactions with convenience and security.

By Order of the Directors

John Ward - Secretary.

N.Z. Company's Office

1 Adam Street Adelphi

20th August 1839. "

The above notice was repeated in the first issue in New Zealand September 6, 1839 together with the following.

"Arrangements having been made for the opening of a Branch in New Zealand notice is hereby given that bills on Sydney at 30 days sight will be issued at this ... Office to the settlers for such sums as may be required at a charge of 2% redeemable in New Zealand in the notes of this Bank with a return of the 2% thus enabling the colonists to transmit their funds without deduction. The Directors likewise continue to grant letters of credit payable at sight for any sum not exceeding £300 and bills at 30 days sight to any amount on their branches at ...

Sydney, Hobart Town, Launceston, Melbourne and Port Phillip at the usual terms.

By Order of the Board.

Samuel Jackson,
Secretary . "

The local directors of the Union Bank were George .. Samuel Evans Esq., D.C.L. Edward Betts Hopper Esq. and George Hunter Esq.

This Bank, the first to be established in New Zealand was founded in 1837 and opened its first office in Launceston Tasmania in 1838. It took over the business of the Tamar Bank, an Australian institution which shortly before junction with the Union Bank had .. been compelled to suspend payment. On 1st September 1837 it issued a prospectus in London indicating the extensive field for the profitable investment of British Capital offered by the Australian Colonies. In setting forth the need of banking facilities the prospectus .. said " A local currency based upon a capital affording unquestionable security is much wanted and loudly called for and facilities which this Establishment will afford for transmitting, in safety, the funds of emigrants and others to the Colonies, and of making remittances to Europe, will be greatly and highly appreciated. "The Directors will negotiate approved Bills on the Colonies and on the deposit of Monies, grant Letters of Credit and Drafts on the Branches at thirty days sight at such charge as they may from time to time deem expedient. Bills will also be forwarded for collection, and the proceeds remitted to England at a commission of £2 per cent. " The capital of the Bank was £500,000 in £25 shares of which 14498 was ultimately allotted to London

and 5502 to Australia. Originally 10000 was reserved for the colonists but the Bank was unable easily to dispose of so many among them. On 31st December 1838 the paid up capital was £143,972.10 being £127962.10 by English shareholders and £16010 in the Colonies. The whole of the capital was to be paid up before the end of 1840. It was soon found however that £500000 would be an insufficient amount of capital to carry on the increasing business of the Bank and on 25th June 1840 the capital was increased to £800000. A year later it was found advisable still further to increase the capital to £1,000,000. The need for so rapidly extending the capital arose from the comparatively small amount of deposits obtainable in the Colonies. This was occasioned partly from the general shortage of money, partly from a large amount being always in the pockets of the people owing to the population being scattered and banks being few, and partly from the Bank's offering no interest on deposits. Thus in September 1841 the deposits in New Zealand in the Union Bank were £9381 whilst the advances discounts and other debts due to it were £14928. By the end of 1844 the paid up capital of the Bank was £820000. The balance of the capital was not called up until 1858 bringing the paid up capital to the sum of £1,000,000. From the beginning care was taken to build up a strong reserve. The 16th regulation appended to the prospectus of 1837 provided that the directors might retain not more than one-tenth of the profits as a reserve fund until a total of £200000 was reached. For many years the maximum proportion was transferred to reserve until the fund stood on 30th June 1852 at £93691.3.5. In that year a special appropriation from

undivided profits was made which in addition to the premium on the sale of shares raised the reserve fund to the prescribed limit of £200000. No further increase was made until 1864. On 30th June 1859 the fund was invested as follows :- New 3 per cents £175000; and New Zealand Imperial 4 per cent Debentures 25000. The new 3 per cents were gradually replaced by New Zealand 4 per cent debentures.

The following notice which appeared in the New Zealand Gazette of 21st August 1839 indicated that at the outset of Colonisation a movement was started for a purely local bank.

"New Zealand Banking Company.

Capital - £100000 sterling in 5000 shares of £20 each.
Deposit - One pound per share.

Arrangements are in progress for the immediate formation of this Bank and for the commencement of business in the first or principal settlement about to be founded by the New Zealand Land Company. One half of the subscribed capital to be called up ⁱⁿ quarterly instalments of £2.10.0 per share and the deposit of £1 per share to make part of the first instalment."

A more detailed prospectus was promised in a short time. This notice was dated 15 August 1839. The attempt to start a banking business in Port Nicholson was however abandoned. But the project of a local bank was taken up in the Bay of Islands. The New Zealand ... Gazette of May 2 1840 contains a report of a public ... meeting held at Kororareka when the following among other resolutions were passed:- "That in the opinion of this meeting the necessity of a Banking Establishment has for some time existed, and that from the increasing population and rising prosperity of New Zealand generally and of the

and of the Bay of Islands in particular, the formation of such an establishment is now imperatively called for.

"That a Bank be established to be called the New Zealand Banking Company with a capital of ... £50000 in 5000 shares to be disposed of in New Zealand and the remaining 2000 to be reserved for the Sydney market". That there was no difficulty in obtaining .. subscription for the shares reserved for Sydney appears from the following advertisement in the Sydney papers 17th March 1840:-

"The 2000 shares reserved for Sydney having been all subscribed for in the short space of two days and ... applications for upwards of 2000 shares more having been made Mr. Henry Thompson deems it advisable to open a .. list for applications for shares in the Bank - which list he will on return to the Bay, lay before a general meeting of the subscribers in New Zealand; with a recommendation to extend the number of shares in the Company to 10000 instead of 5000.

Henry Thompson

Agent to the New Zealand Banking Company. "

Mr. Thompson had been appointed to visit New South Wales to obtain subscribers to the capital. The outcome of this mission was to bring the directorate of the bank .. largely under the control of the Australian shareholders a condition which according to the Bay of Islands Observer militated against its ultimate success.

The Bank opened its first office at the .. first considerable European settlement in New Zealand namely Kororaraka - now called Russell - in the Bay of Islands. This settlement rose to importance in 1814

with the arrival of the celebrated missionary Rev. Mr. Marsden, accompanied by a few Europeans who brought with them horses oxen sheep and poultry. In subsequent years the Bay was frequently visited by whaling vessels. The settlement was sufficiently numerous and important to call for the appointment in 1833 of a Resident Agent by Governor Bourke of New South Wales. At this place then the New Zealand Banking Company was established September 1, 1840 It was brought into being by Deed of Co-partnership of .. that date. By it the signatories agreed to form a Joint Stock Banking Company the objects of which as set forth .. in Article 2 were:- " to establish in the Bay of Islands and in such other place or places in New Zealand as the Directors of the Company for the time being shall deem expedient, Banks and Agencies and also if sanctioned by a General Meeting as hereinafter provided Banks with Local Shareholders to be associated in Co-partnership with the Company and so far as the same can be effected or may not be prohibited .. by the laws for the time being in force, to carry on by means of such Banks, Agencies or co-partnerships as aforesaid or otherwise the business of Bankers, and to make and issue .. Bank Notes and Bills of Exchange or other Bills payable on demand or otherwise to borrow owe or take up any sum or sums of money on the same, or on receipts Bills Promissory Notes or other obligations; also to lend moneys on Cash Accounts, Bills of Exchange or Letters of Credit or in any real or personal security, or on pledges of any kind whatsoever of any Goods Wares Merchandise or other effects whatsoever. Also to keep the money or cash of any person or persons whomsoever or of any Bodies Politic or Corporate whatsoever; Also to deal in Money Bullion and Specie of all countries and in Notes Bills or other securities for money, and generally to transact

all such other business as it is or shall or may at any time hereafter be lawful for Establishments for carrying on Banking in all its branches or dealing in money bullion or specie or in notes bills or other securities for money to do or transact including therein the establishment of Agencies or connections either in New South Wales or ... elsewhere and the giving of Letters of Credit to New South Wales or elsewhere for any purpose whatsoever. " The Capital was £100000 to be contributed in 10000 shares of £10 each, 3000 for New Zealand shareholders 3500 for New South Wales, and 3500 reserved. A deposit of £1 was required on allotment of shares. It will be seen that Mr. Thompson had been successful in inducing the promoters to increase the allotment to New South Wales to 3500. The first Directors were Gilbert Mair, Edward Marsh Williams, Henry Thompson, Jas Reddy Clendon, Daniel Pollen, John Scott, William Mayhew and Philo Eebe Perry. Articles 58, 59 and 60 of the Deed provided for purchasing other banking concerns and establishing branches with local .. shareholders without any participation in the profits and losses of the head Office or other branches.

The establishment of this Bank was greeted with the deepest satisfaction by the New Zealand Advertiser and Bay of Islands Gazette September 10, 1840. It was pointed out that mercantile operations of magnitude had been rendered extremely difficult by reason of the .. absence of a bank. On the directorate were some of the most prominent men in the Government Service of the Colony. On this account many feared it would be manipulated by the Government to relieve any financial stringency that might overtake it.

The plates for its notes were engraved in Sydney and the notes were similar to those of the Bank of England except for the outlandish word Kororareka which was stamped upon them. In Sydney too the Directors .. advertised for a Manager.

The Bank started business at the beginning of 1841 and its operations were limited to Kororareka. It was a banking partnership with unlimited liability of its shareholders and was founded under the authority of the prevailing English law. It was designed to provide a safe depository for the settlers' money; to furnish it with a convenient paper currency; and to assist .. commercial enterprise by lending out its money. The first half-yearly balance sheet was presented at a ... Meeting of Shareholders on the 15th July 1841 and a dividend at the rate of $5\frac{1}{2}$ per centum per annum was declared. By virtue of an ordinance (1841) of Governor Hobson .. quarterly returns of Assets and liabilities were ordered to be published in the Government Gazette and in accordance therewith a return for the quarter ending 30th .. September 1841 was duly published. The following is a transcript :-

Liabilities

Notes in circulation not bearing interest	£7779.14. 1
Bills in circulation not bearing interest	108. 3. 8
Deposits bearing interest	13562.17. 8

Total Liabilities	21450.15. 5

Assets

Coin of all kinds	11770.10.11
Balances due from other banks	1918. 3.10
Landed property and bank premises	573.18. 5
Debts due to the Bank including advances and discounts	12140. 4.10

Total Assets	26402.18. 0

An earlier return for the quarter ending June 30, of that year was published in the New Zealand Herald and Auckland Gazette shewing total liabilities amounting to £12961.10.10 composed of notes in circulation £7779. 1. 7 and deposits £5182. 9. 3. The assets set forth comprised coin £5907.10.10 and securities £11747. 0. 8. The capital and landed property was not disclosed.

It is noticeable that even deposits at call bore interest. The rate was 4% per annum on the daily .. balances of current accounts and 5% on fixed deposits for short periods. This clearly indicates the scarcity and the value of money. Another index of the shortage of cash for the conduct of trade transactions is the relatively large bank note issue. The amount in circulation was nearly two-thirds of the total amount of advances and discounts. The benefit of this to the public, however, was to some extent discounted by the large quantity of coin held. It must be remembered that the paid up capital of the bank was only £6378 and a reputation for financial stability was yet to be acquired. Whilst it collected more money from the people than it lent out, it was the means of gathering together the small sums which collectively provided a fund for lending money to the amount of £12000 to traders who were specially in need of it. Paper too affords a much more convenient currency than gold in a young country with a scattered population. Owing to the insufficiency of banking facilities there is much transporting of money ... about by individuals from place to place. In the trade with Auckland which was early developed the promissory notes payable on demand at the Bank at Kororareka formed a readily transmissible means of payment before the establishment of a banking house in Auckland enabled the ordinary exchange

operations of banks to be conducted.

The published returns of the Union Bank for the September quarter of 1841 were :-

Liabilities

Notes in circulation	£5825
Balances due to other banks	3845
Deposits not bearing interest	9381. 8. 6

Total liabilities	19051. 8. 6

Assets

Coin	3214. 4. 7
Landed property and bank premises	908.10. 7
Debts of all kinds due to the Bank	14928.13. 4

Total assets	19051. 8. 6

A comparison of this return with that of the New Zealand Banking Company for the same quarter disclosed some interesting features. The Union Bank is clearly a much stronger institution with an assured hold upon the confidence of the public. It has not as large a business as the bank in the older and more populous community but having its Australian resources behind it its advances were not so dependent upon its deposits. For this reason and because such was the practice at the time in Australia it offered no interest on deposits of any kind. Money at the time was fairly plentiful in Australia. Indeed that Continent was in the grips of a depression which made New Zealand to the extent of its very narrow limits a more profitable field for the investment of the money the Bank had at command. Owing also to its established position in Australia and its paid up capital of £500,000 it inspired more faith in its customers than the New Zealand Banking Company and conse-

-quently did not deem it necessary to keep such a large amount in coin relatively to its liabilities. By advancing and discounting so largely in excess of its deposits and by calling to its aid Australian money it ... greatly assisted the little settlement at Port Nicholson at a time when help of that kind was of incalculable .. benefit. It was not long before the Union Bank had outstripped the Banking Company in the absolute as well as the relative amount of its accommodation to the public. For the quarter ending 30th June 1842 the former's advances and other debts due to it were £28662 as against the latter's £25929 and the notes in circulation were respectively £10357 and £5285. The Kororarereka .. bank still maintained its lead in the matter of deposits having £21204 as against the other banks £13737. But the cause of this was undoubtedly that the Northern Bank continued to pay interest on all deposits. In 1842 the Union Bank was lending to the Colonists over 100% more than it was receiving from them. This must be regarded as fairly liberal accommodation but it was by no means satisfactory to the Colonists who looked to the Bank to provide them with capital to enable them to develop the resources of the colony. It was not long before the Colonists had better ground of complaint. About 1842 the Bank began a policy of contraction which for several years seriously embarrassed the commerce and progress of the Colony.

British sovereignty was proclaimed in 1840 and the seat of government was transferred from Kororarereka to Auckland. The site of Auckland was bought in May 1840 and the construction of the capital ^{begun} in 1841.

A settlement there was very quickly formed and in April 1841 the first land sale was held. The New Zealand Herald and Auckland Gazette was founded in the same year and at once began to agitate for banking facilities. In its issue of 10th July 1841, after relating the circumstances of the settlement, it refers to the impediment to progress occasioned by the absence of a local bank. The Herald speaks with approval of the "Cash credit" of the Scotch banks and stresses the urgency of adopting such a liberal system of accommodation on personal security in New Zealand. The traders and cultivators of the colony were in urgent need of a credit upon which .. they could draw as the needs of the business dictated. The matter of banking was again referred to by Governor Hobson at a public dinner provided 21st July 1841 in Auckland. The following is the appropriate part of His Excellency's speech at that dinner :-

"The resources of New Zealand are numerous and manifold and furnished abundant occupation for every class of inhabitants and it struck him that a judicious system of banking which should embrace every settlement in the colony, would greatly contribute to this object by combining the interests of all in one common effort to render themselves independent of their neighbours, in so important a matter as that of their monetary transactions; and he would here observe that this was a subject deserving of their serious consideration." ^{1.}

On August 20th 1841 The New Zealand Banking Company opened an Office in Auckland. For some months indeed the major part of its operations had arisen out of the business ... transactions of that town. It advertised in the Herald that 60 days bills would be discounted at the rate of

1. New Zealand Herald 24 July 1841

10% per annum and 100 days bills at 12½%. Interest was offered at 4% per annum on the daily balances of current accounts and at 5% on money deposited on the condition that 10 days notice should be given before withdrawing it. Bills were granted on the Commercial Banking Company Sydney at 1% per annum. Discounting was restricted to Wednesday of each week. At this time there was little direct trade with Great Britain; the exchange was chiefly with New South Wales. The New Zealand Banking Company was an incorporated Company and in order to facilitate and simplify legal proceedings by and against it, an ordinance was issued on 22nd December 1841. It provided for the representation of the Company by its ... officers, but fully protected creditors by enabling any judgment against the Bank to be satisfied out of the assets of any member and for that purpose it required a memorial of shareholders to be recorded for inspection at the ... Office of the Registrar of the Supreme Court.

At a special meeting of the Banking Company held December 16, 1841 it was resolved to submit to shareholders the question whether the Bank should be transferred to Auckland. This step was urged as the centre of the .. Company's business had shifted to Auckland and it was the seat of Government. A ballot was taken August 11, 1842 when the transference was disapproved, owing to the majority of the colonial shareholders residing at Kororaraka and being influenced by local sentiment. This retention of .. Kororaraka as the head quarters of the Bank was an important factor in the ultimate downfall of the Company, Indeed the New Zealand Banking Company fell on evil days ... practically at the outset and at no period of its history can it be said to have been a thriving institution. It

was embarrassed by the control of the directorate by the Sydney shareholders who held the majority of the shares and were unacquainted with the local conditions. Its distress was indicated by advertisements in The Observer (Bay of Islands) calling upon shareholders to pay up on pain of forfeiture, arrears of instalments of capital .. together with interest at 15% by June 30, 1842. Apparently the Bank was not offering a very good investment for capital. On the date mentioned too, it stopped paying interest on current accounts. On July 14 of the same year The Observer complained that the Bank was refusing accommodation to good men and referred to rumours that its bills in Sydney had been dishonored. In August the same paper advised the customers of the Bank to withdraw their accounts. In 1844 Kororarereka became the storm centre of a Maori uprising. The Maori Chief Heke cut down the royal flagstaff therein that year and in 1845 that town was ... destroyed. From this time the Bank practically suspended operations. The Bank suffered too from mismanagement, shortage of Capital, and last but not least the commercial crisis which overtook New South Wales and spread its baleful effects in some degree to New Zealand. From 1845 to 1848 Auckland was without a Bank. During this period of nearly 3 years the business of discounting and exchange was conducted by individuals. Early in 1848 the Union Bank .. opened a Branch in the town.

One of the main causes, I have said, of the troubles of the New Zealand Banking Company in the early forties was the commercial and political condition of the time. The year 1841 was a disastrous one for the continent of Australia. There were numerous bank failures, sufficient caution not having been practised in making advances of money. With reckless disregard of security, accommodation was

provided, and speculation followed with its trafficking in fictitious values. The country too was heavily indebted to English capitalists. The quarterly returns of March 31, 1841 of the banks in New South Wales indicate the abnormal condition of affairs. The notes and bills in circulation were £222802. 1. 8 deposits £342137. 11. 5. The assets immediately available to meet liabilities were alarmingly low. The Banks had allowed their ~~securities~~ to be drained away and it was no wonder many of them were unable to survive a "run".

The report of the directors of the Union Bank of Australia presented to the General Meeting of proprietors on the 24th June 1841 in London refers to the causes of the crisis in the following words:- " A period of unexampled prosperity had evidently induced an extension of speculative transactions and of commercial credit, which left the colonial community exposed to the injurious operation of a reaction evidently hastened and increased by the effects of a deficient harvest, whereby they became largely dependent upon imported supplies of food." The depression continued for several years and although signs of reviving prosperity became manifest in 1845 it was not until the early fifties and the renewed confidence inspired by the gold discoveries that the activity of commerce again required the full use of the banking facilities offered. During this period of contracted credit the Union Bank sent a great deal of its available funds to London for investment. More than one half of the Bank's capital had accumulated there by the middle of 1845. In 1847 the Bank wrote off £10309, the amount of the ascertained loss for bad debts. In 1849 another amount of £10915 was deducted from profits to meet the accrued losses. For four years 1844-8 the dividends

were only 6%. The Bank had more capital than it could profitably employ and to ease the position the Directors, acting on the opinion of legal advisers, resolved to buy all shares that were offered to them at a price not ... exceeding par. Between May 1847 and October 1848 they bought 4551 fully paid up shares at an average price of £24 and 824 partly paid up shares at a corresponding .. cost. These shares were held as assets at par. After the gold discoveries the shares were disposed of at the rate of £42 per share fully paid up. After having been held four years they were resold at a premium totaling £78767.10. 0. For the year ending June 1845 the profits were £55781. 9. 5. **For** the year 1852 with precisely the same capital they were £118268. 1. 5. At this time the financial relations of New Zealand were closer with Australia, especially New South Wales, than they were with Britain, and the conservative banking policy pursued during the crisis in Australia was followed also in New Zealand. The conditions however in New Zealand were different. Colonisation had been too recent to permit of any inflation of credit such as had occasioned the reaction in New South Wales. New Zealand was in need of extended not restricted accommodation. The wealth of the colony was yet to create, its lands yet to be cultivated and liberal financial assistance was indispensable. The Directors of the Union Bank did not, however, discriminate between the conditions in New Zealand and New South Wales, but in excess of distrust withdrew all available funds from the colonies to London. Had a large measure of the accumulating funds been invested in New Zealand the Bank would have made substantial profits and would have greatly aided the progress of the colony, by assisting it at a time when its need of financial support

was most pressing. The policy adopted respecting New Zealand is clearly stated from the following extracts from the Directors' reports of January and July 1846:-

" The branches in New Zealand have been greatly reduced during the half year and may now be regarded as small exchange agencies ^{rather} than as Branch Banks. The Inspector has expressed his determination not to allow them to be increased until he is fully satisfied of the security and prosperity of those colonies. " "It has been stated in a previous Report that the Branches in New Zealand had been almost reduced to small Exchange agencies. They have therefore yielded scarcely any profit during the past year. "

This practical withdrawal from operations in the colony tended to accentuate the disfavor with which the Bank was already regarded. Unfortunately the Bank did not publish quarterly returns during the years of its contracted business in New Zealand. The last return was for the June quarter of 1842. From then until 1857 no official figures are available shewing the extent of the Bank's operations in New Zealand. That the contraction was serious for the colony is sufficiently indicated by the general complaints of the contemporary Press and the reference in the Bank's own reports. The Auckland correspondent of The Bay of Islands Observer of 26th May 1842 said "trade there is little, money less and credit still less." The consequence was the Bank incurred intense unpopularity. Indeed from the outset of its career in New Zealand the Bank was the subject of much local criticism. It was looked upon strictly as a foreign institution. The first settlement of colonists at Port Nicholson had scarcely been planted before a movement was started for the establishment of a local ..

bank.

Port Nicholson Bank.

On 18th April 1840 a public meeting was convened at Port Nicholson to consider the propriety of such a course, when the following resolutions were unanimously adopted :-

"That considering the great advantages that would result to the colony in this its infant state from the establishment of a local Bank to the community at large as a means of accommodation, and to the shareholders, and to the Colony, by retaining the profits of banking in it, instead of allowing them to pass into foreign hands; this meeting is of opinion that measures be taken for the immediate establishment of a bank of issue, discount, and deposit under the name of the "Port Nicholson Bank. "

"That in order to extend the proprietorship of the bank to as great a number of persons as possible, who consequently will take an interest in the prosperity of the same, this meeting is of opinion that the shares should be fixed at such an amount as to allow persons of moderate capital to become shareholders."

A prospectus was duly prepared and published ... whereby the capital was fixed at £50000 in 2500 shares of £20 each. It was urged as an inducement to shareholders that while the profits of English banks doing business in Australia were from 7% to 10%, those of local banks were from 15% to 20%. The prospectus stated that the rate of discount would be 10% and that 5% would be allowed on deposits for a longer period than one month. The original proposal to make the Bank a bank of issue as well as of deposit and discount was early abandoned. From April to September the promoters of the Port Nicholson Bank

advertised their prospectus but apparently the requisite capital was not forthcoming as after the last appearance of the advertisement on 19th September 1840 nothing more is heard of the proposed bank. It was clearly an impossibility to establish a local bank with local capital in a community in which practically every member needed

all the capital he possessed with the addition of a ...
 great deal of foreign capital for purposes of development of the latent resources of the new country to ... which he had come. The directors were unable to obtain the subscription of more than £1000. The dissatisfaction however, with the Union Bank is indicated by the following editorial comment in the New Zealand Gazette and ... Britannia Spectator of 10th October 1840.

"Great inconvenience is generally experienced in money matters in consequence of the banks having curtailed their discounts. We are not alarmists, but we cannot help calling upon the managers of the Colonial Bank to stir themselves and open their money shops as soon as possible." This refers to the difficulty of obtaining accommodation from the Union Bank and the urgency of the projected Port Nicholson Bank commencing business. The discount rate at this time was $12\frac{1}{2}\%$ on three months' bills and even at this rate many had to obtain accommodation from the Insurance offices. For many years the rate of discount charged by the Union Bank in New Zealand was higher than the Australian rate by 40% of the latter rate.

The urgency of obtaining further banking ... accommodation is referred to over and over again by writers of this period. Mr. H. S. Chapman, afterwards Judge Chapman, collected in a small book entitled "The Portfolio" a number of important letters written in the years 1840

and 1842 concerning colonial conditions of the time, in which there is one by Mr. A. T. Holroyd a director of the Commercial Bank of England who presses upon Mr. Chapman the need of extended banking facilities in the colony. He emphasises the cheapness of money in .. Great Britain and the opportunities of profitable investment in the colony. As an instance of the difference between the earning power of capital in England and New Zealand he quotes from the New Zealand Spectator, a Wellington Journal, shewing that landlords obtained 30% interest on the capital laid out in houses.

The general discontent at the refusal of the Union Bank to grant reasonable banking accommodation was forcibly expressed by Lieut. John Wood in "Twelve Months in Wellington, Port Nicholson". This pamphlet was written in 1843 with the object of acquainting intending emigrants from Great Britain of the difficulties they would encounter in New Zealand. The following short extract needs no explanation.

"There is a branch of this establishment" (The Union Bank) "in Wellington, but it is time that the public should be told that the advantages to be derived from it are nearly all of a negative kind. This branch gives no interest upon deposits. If you pay in sovereigns, 2½% is charged to get them back; and if you remove to any of the Australian Colonies, the same charge is made for a bill payable thirty days after sight. True you can get it discounted but for this accommodation you are charged an additional 10%. Even the current notes of this Bank are made payable in

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"Sydney thirty days after presentation at a charge of
2½%, so that in Wellington you cannot demand specie
for a New Zealand bank note."

CHAPTER IV.

GOVERNMENT DEBENTURES as
CURRENCY in NEW ZEALAND:

The experiences of the Government during the first few years after the proclamation of British Sovereignty bore ample testimony to the difficulties arising from the lack of banking facilities and a sufficient currency. Although it should have had the stability and .. limitless wealth of the British Empire to support it, the colony had to resort to extraordinary shifts to discharge its debts. Prior to the cession of autonomy the Colonial Government was but an arm of the Imperial Government and was carried on at the latter's charge. It was estimated by the Colonial Secretary that in 1844 the Missionaries and Military of New Zealand drew £60,000 from England.^{1.} To this annual charge upon the mother country had to be added the salaries of the civil servants. This involved .. heavy drafts upon England and enables us to understand the great excess of imports over exports in the infancy of the colony.² Indeed in 1842 Wellington imported goods to the value of £38,849 from England while her exports to that .. country were nil. In the same year her exports to the .. Unites States of America were £12,156 but her imports from that country were £73,743 shewing that Great Britain was .. partially defraying the cost of Colonial Government through America. The latter discharged a portion of her indebtedness to Great Britain by sending goods to New Zealand. There always being a balance payable by Great Britain to New Zealand, Governors were in the habit of drawing bills

1. Auckland Chronicle, March 23. 1844.
2. See Table "G".

on the Imperial Treasury in anticipation of money to be received. These bills were sometimes discounted by the Union Bank and sometimes circulated as a form of currency when they were accepted by creditors of the Government in payment. They always bore interest ranging from 5% to 8%. The Bank's ordinary rate of discount was 12½% but the Government could generally arrange with it for the transmission of money from England for a commission of 5½%. Besides negotiating bills on the Treasury the Government paid for much of the land it purchased from the Maoris by land scrip. This scrip consisted of Promissory Notes of the Government charged upon the Colonial Exchequer and payable as funds became available. In 1856 the Hon. Mr. Sewell stated in the House of Representatives that there was afloat at that time £100,000 of land scrip. The early years of colonisation in New Zealand were not years of prosperity but of much hardship and inconvenience arising from the absence of the ordinary accessories of civilisation. For the most part a great deal of labour and capital required to be expended before cultivation of the soil could be fruitful. Much of the land was covered with dense forest and much of it was swamp. It was common to measure progress in those days by the number of acres that had been cleared of bush. The settlers were mostly ill provided with capital and dependent upon colonising bodies like the New Zealand Company for the land upon which they settled. Troubles without end encumbered the activities of the New Zealand Company. Settlement was hindered by long and angry disputes over land claims. The Maoris were a constant source of peril. There were no facilities of communication between place and place. The country was roadless

and bridgeless. The following comment upon the difficulties of Governor Hobson's administration is made by Mr. William Gisborne in "New Zealand Rulers and Statesmen"¹. "Meantime, except for a few months during which he was subordinate to the Governor of New South Wales, he was at a distance of half the globe from his official superior and could not expect to receive replies to his letters in less, at the earliest, than eight months. To make his difficulties greater, the country itself was practically untraversable and coastal communication, except by sailing vessels especially despatched for each trip, was unknown".

For many years the Colonists were largely dependent upon other countries for the supply of great portion of their substance. To add to these natural embarrassments the immigrants counted too many artisans and clerks among their number. The proportion of these needed was small until the primary industries had become well established. The Bay of Islands Advocate of 18th November 1843 bewails the general depression and ascribes it to their being too many shopkeepers and mechanics and not enough tillers of the soil. Many of the Colonists too, it must be admitted, journeyed to New Zealand not for the purpose of permanent settlement but in order to make a speedy fortune out of land transactions and other speculative dealings. They came furnished with a little money for speculation - not for capital to be employed in developing the country's resources. To these troubles were added frequent Maori uprisings and incompetent administration of the Colony's affairs. No doubt the ... difficulties of Government in those early days of colonisation were tremendous and would have taxed the resources

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of the ablest men. Nevertheless after making all ... allowances Governors Shortland and Fitzroy must be ... charged with an aggravation of the difficulties. On 19th April 1843 a Memorial of grievances was addressed to Lord Stanley principal Secretary of State for the colonies.

One act bitterly complained of had reference to certain bills amounting to £5000 drawn by the acting Governor upon the Imperial Treasury. The colonial .. chest was empty and the Governor was pressed for means for carrying on the administration. Anticipating .. difficulty in negotiating the bills in New Zealand he forwarded them to Sydney to an agent upon whom he drew for the amount of the bills. Accompanying the bills were instructions that they were to be sold only at a premium. These instructions being regarded as too .. onerous the agent refused to receive the bills and dishonoured the drafts upon him. Lieutenant Shortland then entered into negotiation with the Royal Bank of Australasia which resulted in an arrangement whereby the Bank undertook to discount the Treasury bills at the rate of 15% provided they were secured by debentures charged upon the revenue of the Colony. The debentures were also to be forwarded to the Bank with the bills. Subject to these conditions being observed the Bank was prepared to accept drafts upon it. The first bill of £2000 drawn on the Manager, Mr. Boyd, was honoured although the debentures were not received. The Governor then drew on the Royal Bank for £3000 and applied to the Union Bank to negotiate ^{draft} the. He assured the latter Bank that the debentures had been forwarded and, on that assurance, obtained accommodation. As a matter of fact the debentures had not been sent and when the draft for £3000 was presented to

the Royal Bank it was dishonoured. It was but natural that such a transaction should be the subject of severe criticism; but in the eyes of the colonists it was doubly reprehensible because of the constant local demand for Treasury bills for purposes of remittance. The memorialists stated that had the bills been offered to Colonial merchants they would have secured purchasers at par, thereby securing a good price for the Government and assisting the importers in providing means to meet their debts to Great Britain. Instead of this mutually-beneficial course being adopted the bills were sent to Sydney, where, after remaining for some time unsold, and the drafts drawn against them for immediate use of the Government being dishonoured to the great loss of those who negotiated them, they were handed over to an agent and sold at the unheard of rate of 15% discount. Such was the best terms upon which the bills could be disposed of although secured by debentures to which the revenue of the colony was pledged.

The difficulties of Government, the constant need of money, and the equally constant reluctance of Downing Street to supply it, are indicated by the following from the Despatch of Lord Stanley dated 27th October 1844 :- "In your despatch No. 11, you make pressing application for assistance from this country in clearing off existing debts of the colony and in defraying the necessary annual expenditure. The Government of New Zealand has already been warned not to place any further reliance on large and undefined assistance from the funds of this country."

Time and again the Government was at the end of its resources with the Maoris in rebellion and

1. The Southern Cross 29th April 1843.

creditors pressing on all hands. The issuing of bills on the English Treasury was often the only means of .. carrying on. * Governor Grey in a despatch to Lord Stanley October 18, 1842 intimated that he had drawn on the Lords of the Treasury for £13976. 8. 3 to pay debts owed by the local Government; but the Imperial Government was reluctant to honour unauthorised drafts and this reluctance made the bills of uncertain value. In December 1843 the Imperial Government stated that it would assist local revenue to the extent of £7,500 only per year. Governor Hobson had then negotiated 3 bills of £5000 each with one Mr. J. H. Wray but their acceptance was refused by the British Lords Commissioners. Authority however was given by despatch of 10th April 1843 to issue debentures for the amount of these bills. Purporting to act upon this authority Governor Fitzroy issued a number of debentures without consulting his Council and without publishing the despatch referred to. The history of these debentures throws a flood of light on the monetary conditions of the time. When Captain Fitzroy arrived in 1843 he found an almost empty treasury and by April 1844 the Government was practically penniless. He appealed to the Imperial authorities for relief, but the urgency of the matter would not admit of the delay incident to waiting for a reply, and, bethinking him of the despatch authorising debentures, he began the payment of debts by Government debentures. The .. despatch only authorised the issue of debentures to meet a specified debt of £15000; Captain Fitzroy used it as a convenient form of currency to pay debts generally. The Colonial Treasurer one morning on going to his office found the intended issue characterised by the following

* Corrigendum: "Acting - Governor Shortland"

words painted on his door: " Notice - This shop to open
 shortly with a prime stock of bran new debentures. " ^{1.}

The misgiving, however, with which the expedient was ...
 greeted did not deter the Governor, whose plight indeed
 was well nigh desperate. In May a great many long over-
 due payments were made in what were at the time dubbed
 "government rags." The recipients were from the first
 distrustful and one man within a week after they were ..
 issued offered forty 20/s debentures at public auction.
 They realised only 17/s and 18/s each in coin. ^{2½} The
 result of this auction caused quite a financial panic on
 a small scale. The New Zealand Banking Company found its
 notes immediately involved in the same suspicion and there
 ensued a "run" on the Bank. The debentures had only been
 issued a week when depositors were to be seen rushing to
 the Bank demanding the return of their deposits in coin.
 The situation was acute and Dr. Martin and Mr. Whitaker, two
 prominent citizens, held a hurried interview with the ...
 Governor, the outcome of which was a proclamation making
 the debentures legal tender. This eased the Bank which
 began to return deposits in debentures, thus immediately
 arresting the demand. Having embarked on the perilous
 course of inconvertible notes it was difficult to stop
 and the Governor issued debentures of 5/s and 10/s with a
 view to providing a convenient circulating medium of low
 denomination. The depreciation of the notes was shewn in
 the premium on gold, which was largely withdrawn from ...
 domestic circulation. The example of the Governor was
 soon followed by merchants who issued their Promissory ...
 notes to be used in the place of small change. Consider-
 able quantities of notes of 3d. and 6d. found their way
 into circulation.

1. Hoeken Library, Flotsam & Jetsam, Volume 9 p. 53
 2. The Southern Cross, May 11, 1844.

The following is a transcript of one of these notes:-

Woollen & Haberdashery Warehouse.

S I X P E N C E .

No. 45

On presentation of ten of these notes we
promise to pay the Bearer the sum of ..
Five Shillings.

(Signed)
J. & N. Simms.

Auckland.

8th August.
1845.

Sixpence.

J. & N. Simms.

The original of this copy is now lodged in the Auckland Museum.

Governor Fitzroy found that while it was a simple matter to issue Government notes it was a very hard matter to induce tradesmen to accept them at their face value. Hence arose his hurried investing of them with the quality of legal tender. Having made announcement of this, he sought to cover his action by obtaining the sanction of his Council, and on 7th May 1844 it was proclaimed in the Government Gazette

that a Bill would be laid before the Legislative Council at the earliest possible period to authorise the issue of debentures to the amount of £15000 and to make them legal tender. At the same time the despatch of April 1843 was published.

Accordingly on 16th May 1844 the Council passed "An Ordinance to authorise the Governor of New Zealand to issue debentures and to make the same legal tender". This was one of the first measures passed by the Legislative Council. It was not carried without question and indeed evoked considerable discussion. A short account is contained in the Auckland Chronicle 23rd May 1844. From this debate it appears that the Colony was in immediate want of a circulating medium of an undoubted character. The bank-notes of the Union Bank and the New Zealand Banking Company were inadequate to meet commercial requirements. The Governor estimated the circulating medium of New Zealand at the time at £18000 and Dr. Martin at £10000. It was proposed to issue Government debentures to the amount of £15000 bearing interest at 5% per annum. The need of an increased circulating medium was admitted by all the colonial newspapers and can scarcely be gainsaid. To meet this need the debentures were issued in sums as small as 5/s and 2/s. They were also issued in triplicate for convenience of remittance to Sydney. The Chronicle, referring to this lack of currency said: "Now we think it will be admitted by all our readers that the relative proportion of cash or circulating medium compared with other real property is smaller in New Zealand than in England or any of the other colonies; consequently we argue that the issue of

of debentures is a great benefit possibly even more beneficial than if the same amount had been paid in gold because gold would soon find its way out of the colony in exchange for imports.¹ Apart altogether from the requirements of commerce their issue was a matter of urgent necessity to the Government. It was pressed for money to pay salaries and its servants had either to ... accept debentures or promises to pay of some kind or go without remuneration. There was no cash available. This stringency really accounts for the debentures being made legal tender. Had the recipient of the debentures been unable to force acceptance of them upon his creditors, he would have possessed a substitute for money which performed none of its functions. If the public had not refused to receive such paper they would only have accepted it at a considerable discount and thus the Government ... officers would have been deprived of part of their salaries. Payment by debentures not immediately redeemable is only a promise to pay in the future and consequently no effective payment at all unless made legal tender. Provided there was no other way of paying the debts due then by debentures, it was essential that they should be made legal tender in payment of all liabilities. The Press generally approved the expedient of stamping the debentures as legal tender. It was clamant for a more abundant currency whose general acceptability, if not secured by intrinsic value, should be enforced by legal authority. The exceptional financial difficulties .. which Captain Fitzroy experienced from the outset are well expressed by two writers who have written the ... political history of this Governor's time, namely, Dr. Martin and Mr. Alfred Saunders.

1. The Chronicle (Auckland), 24th May 1844.

"Until the return of the Governor from Port Nicholson he had neither time nor opportunity of making himself . . . fully acquainted with the unhappy state in which his predecessors had left both the Colony and the Government. The expenditure of the latter was about Fifty or Sixty . . . thousand a year, and a debt requiring immediate payment, . . . amounting to upwards of Seventeen thousand pounds, was left to be provided for by the new Governor. The revenue of the Colony could not meet a third of the expenditure, and the Treasury was without a single shilling. The Government . . . creditors were principally officers of Government, shop - keepers, and tradespeople in Auckland, neither of them in a condition to remain long out of their money. The credit of the Government was completely destroyed by the want of confidence in the late Governor, and by a despatch of Lord Stanley's, which had by that time reached the Colony, wherein he stated he would take every means of making it publicly known that any drafts drawn by Mr. Shortland on the Home Government would not be honoured. Whatever confidence Captain Fitzroy might have had that the Lords of the Treasury would under the peculiar circumstances of the Colony pay his orders upon them, he was through the misconduct of his predecessors placed in so unhappy a position that no person in the Colonies would purchase the Bills of the New Zealand Government. At one time he purposed applying to the local bank for a loan; but the means of that bank were so limited, that they could not consistently with their own interests, afford much relief to the Government of New Zealand. The only other course left to the Governor was the one which he adopted - that of issuing debentures bearing interest at Five per cent for

a sum of Fifteen thousand pounds, being the amount of the loan for which Mr. Shortland had negotiated with Mr. Boyd of Sydney.^{1.} A paper currency is, generally speaking, bad; but in the then state of New Zealand... the evil could not be avoided - the debts of the Government and Government Offices were so great to the inhabitants of Auckland, that many of them would have been ruined if they were not paid. The debentures were ... therefore issued, but not being a legal tender, they immediately fell so much in value that it was deemed necessary, at the ensuing Legislative Council, to pass an Act making them a legal tender. This was simply an act of justice (however objectionable on the general principle) to the natives, who were obliged to take .. them as payment for debts from the Government, and who without such an act would not be in a position to meet the demands upon themselves.^{2.}

"At the commencement of the year 1844, there was a floating and growing debt of Twenty-four thousand pounds, and Five thousand pounds was now due for arrears of salaries and current accounts. To .. meet the latter, the Treasurer was instructed to borrow from the Bank, at twelve and a half per cent, five .. thousand pounds, on security of a vote of Seven thousand five hundred and forty-five pounds, which it was expected that the Imperial Government would provide; but, even at that tempting interest, only Two thousand

1. The authority, however, upon which the debentures purported to be based was given to provide for the bills issued by Governor Hobson.
2. "History of New Zealand," by Dr. Martin, at Page 194.

pounds could be obtained. It was hoped that the revenue for the year would amount to Twenty thousand pounds, whilst the expenditure was expected to be Thirty thousand pounds. The Governor was strictly prohibited from drawing bills on the Imperial Treasury, or from floating any paper currency, and both he and his officials declared that they were not at liberty to reduce the staff of officials below that which had been authorised by the Secretary of State at the close of the previous year. It is impossible to believe that this latter restriction was ever seriously made, and, if it had been, there is no doubt that disobedience to such an evident inconsistency would have been more readily pardoned than the mischievous proceeding of issuing a depreciated paper currency, and making it a legal tender, which was actually done. The Council was induced to pass a measure authorising the issue of debentures of from Five shillings to Fifty pounds, carrying Five per cent interest and making them a legal tender.^{1.}"

Unfortunately the Ordinance was not in accordance with the authority of the Imperial Government and when forwarded for the royal sanction was disallowed. Indeed when the Bill was before the Legislative Council in New Zealand Mr. Brown, a member of it, challenged the legality of making the debentures legal tender. The Governor however, informed the Council that he had sufficient authority from the Queen to issue them as proposed without the sanction of the Council. That he exceeded his instructions is clear from a despatch from Lord Stanley to Governor Fitzroy dated 27th October 1844 which reached New Zealand about April the following year. This..

1. "History of New Zealand", by Alfred Saunders, at Page 225.

despatch requires that " measures should be taken at the earliest possible period for the redemption of the notes which you have issued the continued circulation of which renders hopeless any attempt to provide a sound circulating medium for the colony, and must deeply affect its future growth and prosperity. " If sufficient funds ... could not be raised for immediate liquidation, debentures for not less than £50 each and bearing if necessary a .. higher rate of interest than the debentures recalled were to be issued and made payable at any time. The despatch admits the great difficulties which surrounded the New Zealand Government,- the impossibility of selling bills on the British Treasury, and the urgency of providing .. money to defray the expenses of administration. On that account it refrains from expressing the " decided disapprobation of the course which you pursued in issuing in violation of your instructions notes or debentures ... such as those described in your despatch. " It goes on to state that £5185 is being sent to New Zealand in specie "as inconvenience seems to be experienced from the want of a proper circulating medium and great difficulty exists in realising the amount of the Parliamentary Grant by .. drawing Bills upon the Board of Treasury. "

The conduct of Captain Fitzroy in issuing inconvertible debentures as currency was the subject of strong animadversion by the London Press, and occasioned many references in the British Parliament. These references are collected in the New Zealand Journal 1845-6. In his despatch accompanying the debenture Ordinance the Governor says in a postscript " I ought to add that the issue of debentures as a paper currency (however contrary to my instructions) and making them a legal tender has

1. The London Times, 15th May & The Morning Chronicle, 16th March 1845.

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saved the Colony generally much misery. " It is perfectly clear that in authorising the issue of debentures as a means of postponing the payment of an ascertained debt it never entered the mind of the British Colonial Secretary to sanction a policy of creating debentures .. as a medium of general exchange. The following from the editorial columns of the Cook's Straits Guardian shews the attitude of the Union Bank to the debentures. "We have been requested to state on the authority of the Manager of the Union Bank of Australia here, that our correspondent "Sigma" was under an erroneous impression in ... believing that a negotiation had been attempted by the .. Bank with the local Government on the subject of the debentures and that the Bank positively refuses to accept .. them on any terms except when obliged as a legal tender. We can only say that our correspondent is not singular in his belief that overtures had been made to the local ... Government by the Bank, as this impression is pretty generally entertained in Wellington and that the refusal of the Bank to receive them places the debentures in a worse ... position than as stated by him. The fact that we labour under a depreciated currency forced upon us by the local Government which it is probable may suffer a further depreciation, is unfortunately beyond dispute. "

Captain Fitzroy's necessities would not permit him to carry out the instructions contained in the Despatch of the 27th October 1844. Unknown to the Colonial Secretary he had already issued debentures far in ... excess of the purported authority of the Ordinance of 10th April 1843. Instead now of replacing debentures already in circulation with new £50 debentures, he issued the ... latter without recalling the former. Indeed on 10th April

1845 the Legislative Council passed a resolution ..
 in the following words :- " That it appears to this
 Council that the issue of debentures under existing ...
 circumstances should be extended sufficiently to pay off
 the debts due by the Colonial Government and that the ..
 interest on such debentures should be a first charge on
 the Colonial Revenue. " The greatest alarm was occasion-
 ed in commercial circles and on 2nd July 1845 a public .
 meeting was called in Wellington to protest against the
 policy of the Governor with respect to debentures. At
 this meeting the following resolutions were passed . 1.

1. That this meeting views with much alarm
 the increased and daily increasing circulation of debent-
 ures, apparently far exceeding in amount the issue author-
 ised by the Colonial Ordinance; such issue being con-
 tinued simultaneously with and not replaced by the £50
 debentures sanctioned by Lord Stanley in his despatch
 of the 27th October 1844 to His Excellency Governor Fitz-
 roy and that such alarm has become augmented by a resol-
 ution passed in the Legislative Council at Auckland on ..
 the 10th April last, against which there was only one ..
 dissenting vote and which resolution gives unlimited ...
 power to the Governor to issue whatever amount of debent-
 ures he may require for the purposes of his Government -
 a measure more dangerous to the prosperity of the trade
 of this Colony than which could not by any possibility
 have been devised:-

2. Considering that the Union Bank of Aus-
 tralia in this town has for some time past refused to
 receive debentures for any purpose whatever, and conse-
 quently that no goods or produce imported from the ...

1. New Zealand Spectator, July 5, 1845.

neighbouring colonies, or bills of exchange upon any part of the world can be purchased with them, it is therefore desirable than^d pending his Excellency's r... reply to the memorial, debentures should be received with the greatest possible caution." A memorial .. was presented to the Governor requesting information concerning the quantity of debentures in circulation. Needless to say the information was not forthcoming.

1.
According to the Spectator the debentures had driven the coin and bank notes practically out of circulation. "The currency of Auckland consists entirely of debentures." This was ascribed as one of the contributing causes of the downfall of the New Zealand .. Banking Company. The speech of Governor Fitzroy .. to his Council on 5th April 1845 sufficiently establishes the recklessness with which debentures were ... issued. "He thought it right to give the best security he could; he should therefore pay the arrears with the new debentures of £50 and upwards which would bear an interest of 8%. The resolution of payment of only half salaries would be rescinded and the new debentures would be, if not actual payments, security until he ascertained from England how far the Home Government would assist us. "

The following is a copy of a £50 debenture.

before stated he had exceeded the limits imposed by his own Ordinance and instead of issuing £15000 of Debentures had issued them to the amount of £45000. Before the close of April 1845 Lord Stanley's despatch of October 1844 commanding the Governor to recall the debentures had been published in the Press of the Colony.

As nothing was done to execute these commands and it was well known that debentures to an amount of far more than £15000 had been issued the debentures rapidly depreciated. Being illegal they could not very well be legal tender.

By the end of 1845 they had fallen to 20% below their face value. These excesses of Governor Fitzroy in conjunction with other marks of maladministration ... occasioned an almost unanimous demand for his recall. A long and elaborate petition for his removal, by the inhabitants of the Southern Settlements of New Zealand to the Legislative Council, well represents the common feeling. After recounting the Governor's grievous blundering with respect to the land claims and the relations with the Maoris it gives the following statement concerning the issue of debentures. " Captain Hobson having contracted a debt of £15,000 which he was unable to pay, Captain Fitzroy was authorised to give debentures on the ... Colonial Treasury, to be applied solely to the liquidation of this debt. But in May 1844 the Governor declaring .. in Council that " the only immediate want was a circulating medium of undoubted character, " to save the Colony from the extreme distress, if not ruin, which must inevitably follow such a deficiency, " proposed a bill, on which he said, " the prosperity of the colony depended." This .. bill was for the issue of debentures to the amount of £15,000 for various sums from Two shillings to One pound.

These, "in violation of his instructions", he applied to the payment of arrears of salaries of Government Officers, in order to introduce them into general circulation. But the notion of a sound circulating medium being wanted was as great an error as the attempt to create one out of small inconvertible notes. "The Union Bank of Australia" says the Manager of the Branch of that Bank at Wellington, at a public meeting held there on the 2nd July 1845, "had freely discounted all bills offered by the Government, and would have taken any amount duly authorised; and instead of there being any deficiency in a circulating medium the Bank here held much larger amounts of specie than could have been required.¹ But the Governor had preferred applying to the Auckland bank, a local bank merely, with a limited capital." Indeed, gold had been sent by the Bank out of the colony .. in considerable quantities. There was no want of specie, then, to excuse the issue of these small inconvertible ... notes, "the continued circulation of which," says Lord Stanley, in a despatch of October 27, 1844 wherein their immediate redemption is ordered, "must render hopeless any ... attempt to provide a sound circulating medium for the Colony, and must deeply affect its future growth and prosperity." The bad policy of this measure, and the general doubt as to the payment of the notes by the Home Government, a doubt justified by the actual event, caused them to become immediately depreciated. Indeed Captain Fitzroy has himself lately thrown a doubt upon them by describing them as "a bond of collateral security." To remedy or prevent this, Captain Fitzroy, by a great stretch of arbitrary power, and in utter disregard of her Majesty's Instructions accompanying

1. This statement concerning the Union is not borne out by contemporary records. On the admissions contained in its own Reports the Bank was far from meeting the financial needs of either the Government or the people of the Colony.

the Charter erecting New Zealand into a separate Colony, introduced and passed an ordinance making these bills "legal tender." Those Instructions say "And we do further direct you that you do not propose or assent to any ordinance whatever whereby bills of credit, or other negotiable securities of whatever nature, may be issued in lieu of money on the credit of the said colony, or whereby any Government paper currency may be established therein, or whereby any such bills, or any other paper currency, or any coin save only the legal coin of the realm may be made or declared to be legal tender, without special permission from us in that behalf first obtained." Yet in spite of this most explicit and ... stringent prohibition, Captain Fitzroy made his small inconvertible paper currency legal tender, and enabled every debtor in the colony to rob his creditor in proportion to the amount of its depreciation.

Nevertheless having passed an ordinance so probably invalid Captain Fitzroy still further to force this depreciated paper currency upon the public, next passed a Union Bank bill, one clause of which rendered it imperative upon the Bank to redeem its notes on demand "in gold or other legal tender", meaning debentures. The bank of course found means to evade this obligation.

Lord Stanley, in the despatch just quoted from, peremptorily orders the redemption of these notes. "Her Majesty's Government deem it essentially necessary that measures should be taken at the earliest period for the redemption of the notes which you have issued. You will withdraw them from circulation by substituting for them Colonial Debentures for not less than Fifty pounds

each. In conclusion I have to impress upon you that this arrangement (a supply of specie to be sent out) will afford no relief to the Colony as regards the establishment of a proper circulating medium, unless the small notes which you have issued be simultaneously .. withdrawn from circulation." On the 5th April 1845 Captain Fitzroy declared in Council his intention of paying salaries with the new £50 debentures, when they amounted to that sum; when to less, with the small debentures in partial disregard to Lord Stanley's instructions. But on the 10th of the same April only a few weeks after the reception of the despatch the Legislative Council (a passive instrument in the hands of ... Captain Fitzroy) in the very face of the clear and ... decisive instructions it contains passed the following resolution: " that it appears to this Council that the issue of debentures under existing circumstances should be extended sufficiently to pay off the debts due by the Colonial Government and that the interest on such debentures should be a first charge on Colonial revenues." And the issue of debentures for sums certainly as low as £6 has accordingly been extended to at least three times the amount originally condemned. By the most careful calculation your Petitioners can make from data at their command, it appears that there cannot be less than from £40,000 to £50,000 of such notes in actual circulation. On the 2nd July a meeting of merchants was held at ... Wellington and resolutions were passed among which was one declaring that the meeting "views with alarm the increased and daily increasing circulation of debentures, the issue of them being continued simultaneously with .. and not replaced by the £50 debentures sanctioned by ... Lord Stanley." The Bank being necessitated to refuse

them the increased issue of these small notes has .. produced other injurious consequences. It has led to the issue by private individuals of their own printed debentures, and these, for sums as low as 6d. 3d. and 1d. are actually in circulation at this moment in Wellington and Auckland. As there is at present no prospect of any Colonial funds being obtainable for the payment of these Government debentures the holders of them will eventually suffer severely. Captain Fitzroy alone and his Council are responsible for this state of things. The settlers have done every thing to prevent the danger and stop the circulation of the notes. They have been unanimously condemned in public meetings and in public protests at Wellington and Nelson and by the press of all parties and in all places and the banks have steadily refused them. But that the financial inability of the local Government ... might be proved in every particular the paper these notes were composed of was of the most perishable kind; and their fabrication altogether so clumsy as to offer a ... direct temptation to the forgery of them; for which offence a convict has already been transported from Wellington. Moreover, before completion they were passed ... through so many Offices as to afford continual opportunities for the embezzlement of them, which it seems ~~which~~ ~~it seems~~ have actually been taken advantage of. Many of them have been issued in a defective state; some .. wanting the signature of the Colonial Treasurer, some the date of issue across the face of them, some the number of the note and some every one of these authenticating ...

marks. The Government Gazette of the 4th July 1845. states that a number of forged notes were in circulation a book containing 250 ten-shilling debentures having .. been stolen from the Colonial Secretary's Office. The chief clerk of that office having been charged publicly in the Auckland papers with the commission of the theft, tendered his resignation, which was accepted without .. inquiry. One-pound notes thus defective are in circulation in Nelson, and have been refused by Government Officers there; and forged or similarly defective £5 notes have lately appeared in Auckland. The amount in circulation must therefore be very considerable, and will add not a little to the confusion of the currency and the depreciation of the notes. On the otherwise incredible negligence of Government evinced by these facts, and the extreme hardship of its refusal of notes issued by itself, on labourers and others many of whom it must be supposed were unable to read them, it is perhaps unnecessary for your petitioners to comment. Specimens of some of these defective notes will be laid before your .. honourable House herewith.

But can any stronger proof of incapacity be given than the history of these debentures - accounted for, as they were by Captain Fitzroy when first proposed, by the assumption of a fact not existing - issued in "violation of instructions" from the Colonial Office - made legal tender in direct defiance of those of the Crown, by an ordinance ab initio illegal, if not void - continued ... in circulation and trebled in amount in contempt of fresh instructions condemning them - ruinous and in the last .. degree impolitic in their very nature - fabricated so

clumsily as to have induced forgery - and completed with so many needless and circuitous formalities so carelessly observed as to have facilitated if not provoked to their frequent embezzlement?

May not your petitioners, then, conclude that Captain Fitzroy's measures have destroyed the Colonial Finances? He has omitted to retrench unjustifiable items of expenditure: he has abandoned the fund derivable from lands actually in Government possession, by parting with them for land scrip; and of that derivable from all other waste lands, by giving up the Queen's right of pre-emption; and he has by these measures incalculably deminished the value of all lands belonging to private individuals. Further, by his imprudent abolition of the Customs and the incompleteness and imperfections of the mode of direct taxation substituted for them, he has sacrificed a large amount of revenue, and saddled the colony with debts, the prospect of paying which is extremely distant. By the forced circulation of quantities of inconvertible paper made legal tender, he has injured many individuals and confused and corrupted the colonial currency. And by the inconsistency, suddenness, and frequency of financial changes of such magnitude, and so clearly impolitic, he has thrown doubt over all commercial transactions, and destroyed all confidence in the financial ability or comprehension of the financial principles of himself or his Government.^{1.}

Captain Fitzroy was recalled and Captain Grey (afterwards Sir George Grey) was appointed 18 November 1845. He immediately prepared to put into effect the orders contained in the despatch of October 1844 and the subsequent

1. Nelson Examiner, November 1, 1845.

despatch of April 1845 disallowing the Ordinance of May 1844. On 22nd November 1845 it was announced in the Government Gazette that "the Lieutenant Governor will lose no time in making the best arrangements that the means at his disposal will admit of for obviating the difficulties and inconvenience which in the present ... state of the circulating medium of the Colony may result from the disallowance of the above-mentioned Ordinance." Governor Grey was supplied with £15000 by the Home Government for the redemption of the debentures issued .. under the Ordinance and only discovered on arrival in the Colony that three times that amount had been issued, Finding it impossible to redeem them all he offered to pay one fourth of the debentures in specie and the remainder in funded (irredeemable) debentures bearing ... interest at the rate of 8¹/₂% per annum.

This is the only period in her history when New Zealand has had an irredeemable currency. It arose like all such money out of the financial necessities of the Government. Those necessities in New Zealand were .. largely, but by no means altogether, the outcome of Governor Fitzroy's blundering administration. He was quite unfitted for the task imposed upon him. The most important question of the time was the settlement of the land claims. It does not come within the scope of my enquiry to attempt to assess the merits of the fierce controversy that for .. many years raged round this question. There seems to .. have been an over-eagerness on the part of land speculators whose dealings with the Maoris occasioned endless disputings concerning title. Whatever the Governor did seemed to make confusion worse confounded. His incompetence ... precipitated wars with the Maoris and hindered the colon-

-ising activities of the New Zealand Company. He so badly mismanaged things that he cut off pretty well every source of local revenue and enormously increased local expenditure. His plight was such that he had to repudiate the Colony's creditors and stop the machinery of administration, or resign and transfer the muddle to his successor, or issue debentures to be paid at a future time when conditions were improved. He issued the debentures first, and sought authority for them afterwards. Under cover of sanction to issue debentures to meet dishonored Bills on the Treasury drawn by Governor Hobson, he obtained the consent of the Council to the Ordinance of May 1844. He had in the meantime informed the British Government that he had issued some debentures and made them legal tender. While the Ordinance was on its way to England to obtain the royal approval, Lord Stanley despatched instructions to recall the debentures which he had learned had been issued and when he afterwards received the Ordinance he promptly secured its disallowance. But long before this had taken place not £15,000 but £45,000 of debentures had been issued. There is little doubt that this paper currency, by making the medium of exchange of uncertain value, embarrassed the trade and industry of the Colony and greatly increased the depression which more or less affected New Zealand owing to the financial distress of Australia. While banks were closing doors in Australia, the Government of New Zealand was issuing inconvertible notes.

At first the Government of New Zealand endeavoured to pay its debts by getting drafts on the Imperial Treasury discounted. But becoming too

numerous: to suit the British Authorities, these were occasionally dishonored. They thus became of uncertain value. Lord Stanley admits in 1844 that .. these drafts had become unsaleable. Then comes the last desperate expedient. As the drafts cannot be turned into cash wherewith to pay debts, they, in the form of debentures, are forced upon creditors in ... lieu of cash. It is not easy to see a legitimate course that was practicable at that time. It must also be remembered that the repudiation of the legal tender debentures greatly accentuated their depreciation and intensified their embarrassment of business. ^No doubt such disavowal was necessary. It would have been calamitous to allow the policy of circulating debentures as an inconvertible paper ... money to continue. Nevertheless, without them, the Government would for a season certainly have come to a standstill. The Imperial Government should have recognised the difficulties and furnished the Colonial Government with adequate funds.

CHAPTER V.

A STATE BANK of ISSUE:

While such experience was fresh in the memory of colonists, while indeed the greater proportion of the ... illegal State Notes were still unredeemed, Lord Grey sent to Governor Grey an important despatch urging the establishment of a State Bank for the issue of convertible bank notes. The despatch was dated 2nd February 1847 and the following important extract from it was published in the Government ... Gazette of 8th July 1850 :-

"The discussions which have taken place of late years, and more especially the proceedings of Parliament upon the occasion of the last renewal of the Bank Charter have, I apprehend, in the judgment of those whose authority is of most weight on this subject finally settled the principles upon which a paper currency ought to be regulated. Although a regard for ... existing interests has prevented these principles from being acted upon in this country to their full extent, there is no longer much difference of opinion as to the general nature of the system which an adherence to them would prescribe. In New Zealand, I believe that no such interests have yet grown up, though they would not fail speedily to do so, it is ... therefore I trust still possible in that Colony to secure the great advantages which could not fail to result from the establishment of a paper currency regulated upon the most .. correct principles. The view which I take of these principles is as follows: The business of banking, or of dealing in money, and that of issuing paper money, I consider to have not merely no necessary but no proper connection .. with each other. The former is a branch of commercial business which should be left like every other, to private enterprise; but to issue money, that is, to furnish the authorised medium of exchange, is one of the peculiar and

not the least important functions of the Government. With respect to the coinage this principle has always .. been recognised nor is these any attribute of Sovereignty which has been more strongly insisted upon and more rigidly guarded from invasion by the Supreme Authority of almost every State, whether of ancient or modern times, than the exclusive right of coining money for the use of its own subjects. As to the issue of paper money, a different rule has generally been followed but as experience has proved with the very worst results. By allowing the issue of paper money to become a commercial speculation the ... amount issued from time to time has been made to vary not according to the real wants of the community but according to the interest of the issuers. Thus the value of this description of currency has been rendered uncertain and all the evils have been entailed upon the community .. which result from the want of uniformity in the measure of value and general medium of exchange. The value of a metallic currency is not liable to injurious fluctuations simply because the amount in circulation cannot be arbitrarily varied but is self-regulated by the exchanges of which the operation is too powerful to be controlled by law. In order therefore to unite the advantages of cheapness and convenience which belong to a paper currency with those of steadiness and uniformity of value .. which belong to a metallic currency, one of the former description ought to be so regulated that the amount in circulation should vary according to the same^e laws which govern the latter. This is to be accomplished by providing that paper money beyond some fixed amount clearly within the wants of the country in which it circulates

shall only be issued in exchange for the precious metals and that it shall always be payable in the same. Under this system the circulation can only be increased when it is the interest of private individuals to import Bullion which they may exchange for Paper and can only be contracted in like manner when it is their interest to demand ... Bullion in exchange for Paper. The system now established in this Country by the authority of Parliament is founded upon this principle, to which it conforms as nearly as the necessity of having regard to vested interest would permit, at the time the arrangement was made. In New Zealand a simpler and more perfect system may I hope be adopted.

All I wish earnestly to press upon your attention is the importance of occupying if possible the ground by some Government paper before Private Banking Companies ... shall have taken possession of it. If this is neglected I am persuaded that it will practically be impossible to prevent such Companies from being formed, and from issuing notes for circulation. It will be equally impossible to confine the privilege to any single Private Company. Such a monopoly would be sure to create too much dissatisfaction among all excluded from sharing in its profits to be long maintained. The consequence would be that Banks of Issue would be established, and that in seasons of commercial prosperity, the competition of these Banks would unduly extend the amount of paper in circulation, thus raising prices and stimulating, precisely when it .. ought to be moderated, the spirit of speculation, thereby ensuring whenever the reaction came, as come it must, a more than corresponding depression and wide-spreading ruin and distress."

(Signed) Grey.

It will be noticed that Lord Grey's proposal was based on the currency principle which the Bank Charter Act 1844 was intended to carry out. The supporters of this principle were triumphant in England at this time; and it is not surprising that in laying the foundations of a new nation in New Zealand the governing authorities should accept the doctrine concerning paper money which received the sanction of the Bullion Report and the adherence of the leading financiers of the age. It is essential to a proper understanding of the Bank of Issue to mark that among its antecedents this belief in a ... generally acknowledged economic dogma was an important one. According to the currency principle paper should not be used to enlarge the currency but only as a substitute for coin. Upon this principle the Bank of Amsterdam was formed supplying a uniform bank money or currency in place of the multifarious coins of uncertain value which circulated in Amsterdam. In New Zealand while there was a mixed coinage, the chief defect from a colonial point of view was its weight and bulk and general non-portability, a matter of grave concern to scattered communities with few banking facilities.

Lord Grey's despatch was published in the New Zealand newspapers about the middle of August, 1847, and immediately occasioned a heated controversy. The despatch was viewed with misgiving and indeed alarm by many of the leading merchants of Wellington and they addressed a memorial of protest to the Governor of the Colony.¹ They plainly manifested their utter lack of

1. The New Zealand Spectator, 11th September, 1847.

faith in the convertibility of Government paper money. Apparently they paid little heed to the provision that notes should be exchangeable for cash only. The fact was they feared the facility with which Governments, being law makers, can alter the law to suit their immediate .. needs. While the precautionary measures laid down by Lord Grey were ample to secure the absolute stability of the notes so long as they were observed, what assurance was there that they would not be suspended in a time of difficulty? Unfortunately the conduct of the Government had not been such as to inspire confidence. The public at the time were smarting under the enforced circulation of the illegal debentures which were equivalent to an inconvertible paper currency. From the opening words of the despatch it was apparent that Lord Grey was under the impression that all the debentures had been recalled. The fact was, as has been stated, that Governor Grey had been unable to redeem at first more than about one fourth, and upwards of £30,000 of Governor Fitzroy's debentures had simply been exchanged for debentures at a higher rate of interest. The following further extract from the despatch discovers a general mis-conception concerning the medium of exchange in the Colony.

"Since the recall of the debentures which were issued by Captain Fitzroy I am not aware that any description of paper money has been in circulation in the Colony; but judging from what has taken place in other British Colonies, I can entertain no doubt that with the increase of trade, a demand for such a cheap and convenient medium of exchange will speedily arise. Nor do I see any objection to the creation of a paper currency on the contrary - provided it is properly regulated, I

am of opinion that such a mode of economising capital, where capital is so greatly wanted, must be exceedingly advantageous."

It will be noticed that not only was Lord Grey apparently misinformed respecting the debentures but .. that he was unaware of the bank notes issued by the ... Union Bank. The amount of its notes in circulation at the time, it is difficult to ascertain with precision.. as the Bank had ceased temporarily to publish its re - turns. Business had shrunk so greatly that it was not solicitous of publicity. The last return pub - lished in the Gazette was for the quarter ending 30th June, 1842. The notes of the Union Bank then in cir - culation were £10,357 and the New Zealand Banking Com - pany had a circulation at the same time of £5385 making a total of £15642. The note circulation of the Union Bank at the time of the State Note Ordinance was accord - 1. ing to an uncertified return given by Mr. A. Kennedy, Manager of the Auckland Branch, £14,592. Banking .. had fallen on evil days in the Colony. A few years previously the New Zealand Banking Company had gone in - to liquidation. Its notes were redeemed but not .. without the assistance of Government debentures which to some extent had to be accepted by the note holders in lieu of cash. This Banking Company had been severely injured by the Maori War. In 1845 Korora - reka, its headquarters, was destroyed. In 1846 the half-yearly reports of the Union Bank tell us that the New Zealand Branches had been reduced to little more .. than exchange agencies. The internal commerce was left practically unsupported by banking facilities.

1. The New Zealander, 9th June, 1849.

Besides the notes that were in circulation were not strictly convertible in cash on demand. This appears from the references to the Bank by the contemporary Press in 1844.¹ When an Ordinance was issued facilitating suits by and against the Bank on similar lines to the Ordinance before explained for the benefit of the New Zealand Banking Company, objection was taken by .. practically all the newspapers to granting any concession to the Union Bank while its notes were in effect inconvertible. It systematically refused specie for its notes, and the Wellington Branch, for instance, would not give in exchange for its notes, drafts on .. another Branch - as Nelson - except at a discount. The Union Bank opened a Branch in Auckland in the beginning of 1848 and when notes of the Auckland Branch were presented at Wellington they were exchanged only at a premium of 2% and if gold were asked for, the premium was 3%. So that while it was not true that no description of paper money was in circulation in the Colony, it would have been certainly true to have said that there was no sound paper money. What there was was deficient in quality and quantity. Lord Grey did not in any way overstate the need of the Colony for an adequate issue of efficient bank-notes.

Another error arising from misinformation was disclosed in the despatch. Lord Grey proposed .. that one fourth of the coin received in exchange for the notes should be retained for the redemption of notes on demand and the balance should be deposited with a banking establishment in Sydney in order to earn interest to

1. Southern Cross, 4th May, 1844. N.Z. Gazette and Wellington Spectator, 24th April, 1844.

defray the cost of administering the Bank of Issue. At this time, however, none of the Australian banks paid any interest on deposits fixed or current. Consequently when the Bank was established its surplus funds were invested in English securities in London. In addition to these mistakes of fact the despatch reveals one conclusion not altogether sustainable. After reciting the danger of over-issuing notes in a time of expanding trade and of thereby artificially raising prices it ... alleges that the prevailing financial distress in Australia was due to such over-issue. As a matter of fact prior to the crisis Australia had received a great amount of British Capital which was lent out at a high rate of interest in advances and the discounting of bills, almost regardless of the stability of the borrower. No doubt the right of issue which was at that time uncontrolled by statute was a valuable handmaiden to the policy of indiscriminate lending. But apart from the note issue the inflation and subsequent reaction would certainly have arisen.

These erroneous statements were omitted from the publication in the Gazette which I have quoted. Naturally, however, they were not overlooked by the opponents of Lord Grey's proposal and a vigorous opposition .. was led by The Wellington Independent and The Southern Cross (Auckland). But the main ground of antagonism was the common one that Governments were not to be trusted with the issue of paper money, a ground which acquired .. solidity from the past experience of the Colony. The following from a contemporary writer is typical. "But at any rate the bank of Issue will be safe. Being ... bound only to issue notes in exchange for cash on demand

it cannot fail? We doubt it. Suppose a party . . . brings to the Wellington Bank £1000 of notes issued at Auckland and demands as he is entitled to do specie in exchange - what follows? Suspension of payment - Notes at a discount - and a second Debenture fraud upon the public.¹

On the other hand the supporters of the proposal, whose opinions were voiced by the New Zealand Spectator and Cook's Strait Guardian, stressed the deplorable deficiency of the currency, the strict convertibility of the notes with the resources of the Imperial Government to warrant their value. The unpopularity too, of the Union Bank did much to win a measure of . . . approval for Lord Grey's proposal.

To many settlers this Bank seemed designed not to aid development but only to exploit the Colony for the profit of foreign shareholders. Complaint² was made that it contracted credit at most inconvenient times; that its exchange rates between the leading . . . settlements were excessive; that it afforded no facilities at all for exchanges with the less populous . . . settlements thereby necessitating the carriage from . . . place to place of large quantities of money; that it paid no interest on deposits; that its discount rates were very much higher than they were in Australia; and that in negotiating Government drafts its terms were such as greatly to increase the expense of administration. It appears that during the years 1846 - 7, £1500 was paid to the Bank by the Government for negotiating its drafts on the British Treasury.³ The truth was that

1. New Zealand Spectator, 18th May, 1850
2. New Zealand Spectator, 18th May, 1850
3. New Zealand Spectator, 21st August, 1847.

when a Parliamentary grant was made in England for New Zealand the Bank charged 5% for making the grant available in New Zealand. When money was required for remittance to England the Bank charged 2%. Thus exchange between New Zealand and England cost 7%. Many merchants of the time strongly urged the Government to sell its bills on the Treasury in the open market when it was anticipated they would be taken up if not at par at any rate at a small discount; thus practically saving to the community 7% on the exchanges. Some Government bills were negotiated in this way and realised from 3% discount to par. Indeed in August 1847 they rose to 1% premium. To this business of exchange the Bank's operations were practically limited as was stated in the report of the directors to the meeting of proprietors 20th July 1846. It is said in the Report that there was little profit to be made in New Zealand. If that was so it must have arisen from the small volume of business to which had to be charged proportionately heavy working expenses.: If other business was practically discontinued, the fixed expenses incident to the maintenance of the Branches would eat into the profits of the exchange transactions. A little consideration will serve to shew that the Bank was exacting for too high a price for settling the Colony's international indebtedness. The commercial condition of the country was such that it had as yet little of produce for export whilst it was largely dependent on England and Australia for the supply of its needs. The Bank at this time had two Branches, one at Wellington and one at Nelson which were the principal towns of New Munster the Southern settlement of New Zealand. The external trade

of this settlement was financed mainly by the Bank. A glance at the imports and exports will therefore enable one to understand the state of the exchange. ~~Especially as in these early days no factor contributing to the rate of exchange counted for anything.~~

The total imports into New Munster for 1846 were from Great Britain £27448 and from Australia £64796 and the exports were £6004 and £14048 respectively. The .. excess of imports was thus £72192. This would seem to necessitate the shipment of a large quantity of ... gold abroad. But against this excess of liability had to be set off much of the expense of local Government; and the cost of maintaining the Maori wars and Christian missions. These charges were borne by the British Government and British Societies. In 1844 it was estimated that £60000 was payable by Great Britain for the maintenance of her military establishment and missionary enterprises; and the proportion of cost of the civil administration assumed by the ... Imperial Government varied from £10000 to £40000 a year. So that there was practically an equation of indebtedness. Certainly no gold left the shores of New Zealand. Such being the case the discount of 2% on the bills of merchants who had payments to make in England or Australia was a highly profitable one. So far too as concerned the English trade it must be remembered that the Union Bank was transferring at .. this period, owing to the acute depression in Australia, as much of its money as possible to London and had there a large surplus of funds which in default of more profitable use it invested in British securities. Parcels of gold however were occasionally transmitted from London. Only by this means indeed was it possible

to obtain currency. Further, as I indicated in a previous chapter, the British Government on one or more occasions forwarded money for the redemption of Governor Fitzroy's debentures. Money also came into the Colony by means of the immigrants and the Bank arranged for its transmission. In short the exchanges were for some years what is technically known as favorable. Consequently it was to be expected that drafts on London would carry a heavier discount than drafts on New Zealand and thus had there been other banks competing with the Union Bank Government bills would generally at any rate have been saleable only at a small discount. Five per cent ... represented an exorbitant charge.

On 11th October 1847, five days prior to the passage of the Ordinance authorising a Bank of Issue there were ... Government debentures in circulation to the amount of .. £30371.17. 2 and on the date mentioned an Ordinance was issued providing for the redemption of these debentures out of the general revenue of the Colony. The following schedule appended to the Ordinance indicates the nature and denomination of these debentures and the order in which they were to be redeemed:-

1. Debentures not bearing interest; viz. of five shillings and ten shillings each £237. 0. 0
2. Debentures bearing 5% interest viz. debenture certificates, according to the priority of their dates 1233.15. 1
3. Debentures of one pound and five pounds each 2928. 0. 0
4. Special debentures according to priority of date viz:-

No. 2 April 1843	2000. 0. 0
No. 1 Nov 1843	734.14. 4
No. 4 April 1844	250. 0. 0
No. 2 May 1844	100. 0. 0

(Which are to bear interest at the rate of 8% from and after the first day of October 1847.)

5. Debentures bearing 8% interest :
according to priority of date viz:-

Issued previous to Government Notice of 24th November 1845	1150. 0. 0
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Issued subsequent to and in terms of said notice of 24th Nov. 1845	21679. 7. 9
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The notice referred to was the notice of Governor Gray indicating that the command of the British Government to recall Captain Fitzroy's debentures would be carried out. The 4th class of debentures shews the extent to which the old 5% debentures had been exchanged for 8% debentures by October of 1847.

I may now summarise the conditions prevailing in the period immediately preceding the establishment of a Bank of Issue. An inconvertible paper currency had been forced on the Colony by the Government. The Union Bank to a large extent suspended all banking functions but that of effecting external exchanges. The New Zealand Banking Company had just closed its doors. The country was in sore need of a sufficient and trustworthy currency; commerce between the various settlements was seriously impeded by the absence of a convenient means of transmitting payment; in short progress was hindered because of inadequate banking facilities. Under such circumstances Governor Grey with the advice and consent of his Legislative Council issued on the 16th October 1847 "An Ordinance to authorise the establishment of a Colonial

Bank of Issue by the Government of New Zealand to make and issue a Paper Currency, and to prohibit the making and issuing of Paper Money by Private Individuals." Under the Authority of this Ordinance a Bank of Issue called the Colonial Bank of Issue was established and carried on business in Auckland and Wellington. The Ordinance sets forth the function of the Bank and prescribes the conditions under which it shall operate. It was entirely a State Bank limited to the issuing of bank notes of denominations of one pound or any multiple of a pound. The notes were issued only in exchange for cash and were redeemable on demand, in cash. The intention was primarily to provide a stable paper money which should replace to some extent the more inconvenient coin. It was not indeed an increase of currency that was aimed at as a more portable one and one that would circulate more quickly, thereby increasing the efficiency of money. The population was scattered and the only banking houses were at Auckland Wellington and Nelson. Men had to carry considerable quantities of money about with them. At the present time in New Zealand practically every village has its bank but in the early days of settlement the people were of necessity custodians of their own money, and there being no machinery for effecting exchanges between different places they had to transport their money to the places of payment. A reliable paper money was an urgent want. The notes resembled the Treasury Notes of the United States of America. They were in effect Government receipts for coin deposited, convertible into coin again at any time on demand by the

bearer of the receipts. Ample measures were taken to secure the notes against any depreciation of value. In the first place they were issued only in exchange for coin and one fourth at least of the nominal value of the notes was required to be kept in the Bank's coffers in coin as a reserve to meet the current demands of the public. This reserve was increased to one-third by an Ordinance of July 31 1851. It is to be remarked also that when notes returned to the Bank they could not be re-issued except in exchange for an equivalent amount of cash.

Secondly although provision was made for investing the ... balance of the coin, only investments realisable on 3 months notice were allowed. The investments were to be made as funds were available so that they would mature at different times. The investments were thus intended to be liquid. As a matter of fact the investments were all made in English Consols. When the reserve of cash was increased in 1851 to one-third of the notes in circulation, authority was ... given for investing the residue of the coin in the public securities of Great Britain. The Ordinance as originally passed by the Governor in Council provided for investment at the discretion of the Governor which would have permitted investment in New Zealand. This provision however ~~how-~~
~~ever~~ was disallowed by the Imperial Authorities. It seems that despite the disallowance Colonial securities were for a short time accepted.^{1.} Lastly, the ultimate payment in cash of the notes was chargeable upon the general revenue of the Colony. Briefly then the Colonial Bank of Issue was a Government Department which undertook the custody of coin free of charge, and in return for the coin, issued notes redeemable on demand, of a face value, equal to the amount of coin deposited. The Government provided the

1. The six Colonies of New Zealand (1851) by Sir.W.Fox at P. 131.

public with a money convenient for circulation and the expense of the accommodation was intended to be met out of the interest earned on the investment of the cash not required as a reserve. Any surplus of interest was .. payable into the Colonial Exchequer. The notes were .. made legal tender for sums of £2 and over. One object of this Ordinance was to make the issue of paper money a monopoly of the State. Consequently the right of .. note issue was denied to private institutions. The Union Bank was however permitted to continue its average note circulation until ~~further~~ notice to the contrary. This average was to be calculated on the average quantity of notes in circulation during the period of two years prior to 1st July 1847. Provision was made for appointing commissioners to ascertain average. The right of issue was not withdrawn from this Bank until 1st October 1852. The history of the Paper Currency Ordinance is remarkable for the hostility it encountered from the outset. It occasioned the first strenuous political debate in New Zealand. The Attorney General and the non-official members of the Legislative Council hotly contested the passage of the measure when proposed on 17th August 1847 by Governor Grey. A full contemporary report of the discussion is given in the issues of 21st and 28th August of the Southern Cross. The .. addresses of the Attorney General and Mr. Brown were of a high order and indicated a statesmanlike grasp of the principles involved. They both contended for a note issue less rigid and more responsive to the needs of ... commerce than was provided by the Currency Bill. Both emphasised the danger of Government control and emphasised

the menace by reference to the abuse of Government debentures. Both enlarged upon the discouragement to private banks which would result from the State's monopoly of the right of issue. Another Councillor Mr. Merriman, in his speech, stated that that very morning he had seen a Government debenture being hawked about. He contrasted this irredeemability of Government paper with the redemption by the New Zealand Banking Company of its notes in the time of its liquidation. This drew from Governor Grey the retort that the Company had been able to redeem its notes only by the assistance of Government debentures. The Governor's answer to the criticism of his bill consisted in stressing the perils which the recent history of Great Britain had shewn to reside in grants to private companies of the right of note issue. It was clear from the debate that the Ordinance recommended itself to its promoters as a legislative experiment in a new country on the lines of a ... certain economic theory, rather than as a measure urgently called for by the needs of the colony. The latter however were real and must not be overlooked. On 29th .. October 1847 a Memorial from the Merchants, Brokers, Traders, and others of Wellington was laid on the table of the Council which objected to the bill on the following ... grounds :-

1. The State notes would share the same fate as the debentures and become, like £30,000 of the latter a part of the funded debt.

2. The notes of the Union Bank would be transformed into worthless paper and the obligation of the Bank to redeem its notes cancelled. (This was an inference of law the memorialists drew from the stamp of .

illegality which the bill proposed to put upon the notes of all private banks. The danger referred to was ... sufficiently provided against subsequently by the extension to the Bank of the right to continue its note .. circulation for a period.)

3. The currency of the colony was in good condition. (This was far from true as I have shewn)

4. The proposed Bank of Issue would not be self-supporting and would be a burden on the revenue of the colony.

5. It would make foreign silver legal tender. The best statement of the objections is contained in a .. Protest dated 16th October 1847 published by Mr. William Brown. The following is Mr. Brown's summary of his .. argument :-

1. "It will entail a very heavy expense on the colony to carry out the various establishments necessary for the purpose, instead of yielding a large profit as contemplated.

2. It is most objectionable in so far as it confers upon the Governor for the time being the power of lending out, at his own discretion, three-fourths of the gold that may be deposited in the bank, for the safe return of which the public may have no security whatever, nor is any one responsible for it over whom they have any control.

Besides these pecuniary risks, however, such a power over the funds of the bank is dangerous to the liberties of the people.

3. The Bill gives the Governor the further power of declaring the days and hours on which the bank shall open, which, in the event of the bank not being in/a

situation to pay the demands upon it, may be taken, unfair advantage of.

4. The Bill is further objectionable in so far as it makes the notes of the bank of issue a "legal tender" whether the bank shall continue to pay in cash or not; consequently taking away from the authorities all anxiety or care to keep up the requisite supplies of gold, knowing that the public will be compelled to receive their notes whether they have gold to represent them or not. This fact is alone sufficient to warrant the public from reposing any confidence in the management or safety of the proposed bank.

5. The measure will be in a special degree obnoxious to the native population. They have from previous experience a great dislike to paper money; besides it is quite unsuited to them, as they have no ... means of preserving such paper from destruction, and it would on that account, prove a serious loss and inconvenience to them. Any attempt, therefore, to force it upon them would be unfair as it would be imprudent.

6. *The measure is altogether a mere experiment. It is introduced to remedy no practical .. grievance, and, in the circumstances it is unfair to .. force it upon the community.

7. It has been carried through the council not only in opposition to the non-official members, but even against the opinions of a member of the Executive Government. It is directly opposed to the declared wishes of the settlers in the southern as well as the northern division of the Islands; and there having been no representative in the Council of the settler's in

Cook's Straits, the objection is the stronger of forcing a measure of this description through the council on the votes of official nominees, who cannot be supposed to ... possess any peculiar knowledge of the principles of commerce of the currency involved in the present measures."

Mr. A. Kennedy was another influential opponent of the Bill and in a letter published in the New Zealander 9th June 1849 he calls special attention to two important points:

1. "If the Bank succeeded in replacing the gold in circulation by paper and then invested the gold abroad, the difficulties of foreign exchange might become acute.

2. The convertibility of the notes was made uncertain by the provision which authorised the Governor by proclamation to fix the days and hours at which the .. Bank should be open. By an improper use of this power the Governor could close the doors of the Bank at a time when redemption of its notes would embarrass it."

Although the Ordinance was ^{passed} 16th October 1847, the Bank did not open its doors until 3rd June 1850. A few days prior to this on May 31st the Southern Cross marshalled all the arguments against the Bank. The Ordinance .. however was confirmed by Her Majesty 12th April 1850 and in June business was commenced, and Offices at Auckland .. and Wellington were opened. The first manager of the Wellington Branch was Lieutenant G. Hulme and of the Auckland Branch Mr. G. J. Thomas. In Wellington the business was carried on at the Office of the Auditor-General. The Ordinance required the publication of weekly returns in the Government Gazette disclosing the amount of notes in ... circulation, the coin held in cash and the coin invested.

Until May 1856 the returns of the two Offices were separately published. From that time until the winding up of the Bank shortly afterwards only the amalgamated returns were furnished. These returns afford material for a few conclusions significant of the monetary conditions of the time.

Notes were given for both gold and silver but only for current coin of the realm at the English .. mint prices. At first it was not intended to impose this limitation upon the exchangeability of silver. In Lord Grey's first despatch (February 2nd 1847) concerning a State Bank of Issue the following occurs :-

"This Colonial paper should be made payable either in gold at the English mint price; or in silver .. receiving the coins of different nations (excepting British silver) at the rated value assigned to them in the ... Proclamation from time to time issued under the authority of the Lords Commissioners of the Treasury, all persons should also have the right on tendering gold or silver at the same rates, to receive colonial paper in exchange," It was deemed advisable to allow of the exchange of silver "considering how largely silver and especially silver dollars circulate in the countries near to New Zealand and with which it would be likely to have the most frequent commercial intercourse." The bill as originally drawn and passed by the Legislative Council contained a provision embodying this instruction. Clause 10 provided .. that notes shall be issued in exchange for British Silver coins and such foreign silver coins as shall from time to time be approved by the Lords Commissioners of Her Majesty's Treasury, and at the rate or value to be fixed by them; provided always that the description of such foreign silver coin of the rate or value thereof so

to be fixed as aforesaid shall first be published by proclamation in the New Zealand Government Gazette by the Governor for the time being under the authority of the said Commissioners."

This provision excited considerable criticism. While the silver was mostly of British coinage there was a good deal of foreign coin in circulation. This is shewn by a return published in 1844. The currency of New South Wales was still more cosmopolitan. It was feared that a large inflow of variously coined silver ... from Australia would take place in exchange for notes. Unless the greatest care were exercised in accurately .. fixing the ratio of exchange the State might find itself loaded with a mass of depreciated silver. This peril became manifest to the British Government before it ... assented to the Currency Ordinance. In a letter directed to Earl Grey by the Lords Commissioners of the Treasury dated May 20 1848 concerning the proposed Bank of Issue mention is made of the danger of exchanging notes for .. coins of different nations. The letter insists that notes shall only be given for coin legally current in a British Colony and requires that any foreign coins so current shall only be exchangeable at a properly regulated value.

In a Despatch May 31, 1850, of Earl Grey to the Governor of New Zealand it is stated that "foreign coins with the exception of doubloons are rated too high and East India Company's rupees are rated too low." When the Ordinance received the Royal assent 12th April 1850 the menace of foreign silver had been effectively removed by restricting the coin exchangeable into notes to current coin of the realm at the English mint prices. It will

be noticed there was nothing in the Ordinance to hinder silver from being exchanged for notes and then the notes being converted into gold.

Coinage of silver for the Colonies being restricted to Great Britain and there being no marked .. surplus of it in the Colonies, there was however no possibility of carrying on any appreciable and continued trade in the exchange of depreciated silver for gold. It may be that the disproportionate amount of silver offered to the Wellington Bank at first was a symptom of an incipient movement in the direction feared. The experience of Auckland, however, would seem to discountenance any such inference. At the end of June 1850 it had in its coffers £1300 of gold and only £9 of silver. Immediate danger was scarcely to be apprehended. The amount of gold in New Zealand was too limited to tempt any systematic practice of the kind. Furthermore the gold fields of Australia were beginning to reveal their astonishing treasures and nobody gave a passing thought to any opportunity afforded by the New Zealand Bank of Issue to obtain gold in exchange for depreciated silver. In any case the drain against which the Bank was unguarded could readily have been arrested by Government intervention had the occasion arisen. In the meantime a considerable amount of silver was circulating in the Colony and one of the .. main purposes of the Bank was to enable coin generally to be exchanged into a more portable currency. By May 1856 the gold in the chests of the two Branches was £20,042.10. and the silver was only £636.10.0 indicating that the bulk of the silver coinage was required for the purpose of small change.

During the greater part of its existence the Bank issued a greater value of notes of a denomination of

£5 and upwards than of notes of a smaller denomination. This clearly indicated the service of the Bank in providing an easy means of transmitting large payments from place to place. In the last return 17th May 1856 the circulation for the two Branches was £54085 of which ... £26805 were in notes of £5 and upwards and £27280 in notes of under £5, With the more extensive use of the currency furnished by the Bank the number of notes of smaller denomination naturally increased.

The Bank seemsto have had some difficulty for a while in inspiring confidence. This was especially noticeable in Auckland where the amount in the ... chest alternated somewhat from month to month but shewed substantially no increase during 1850 and 1851. Indeed the amount of notes in circulation dropped in November 1851 to £887 but they increased again in December to £3967. The advance in Wellington was steady but slow at first. In December 1850 notes were in circulation to the amount of £4101. A year later the amount was £7431, to be doubled during the succeeding year, In February 1856 the amount stood at ... £40007 Auckland's last annual return December 1855, shewed £12944 in circulation.

The cost of management was not heavy. Auckland's return of December 1850 was as follows :-

Manager's Salary June to December	115. 7. 8
Safe, Stationery etc.	32. 7.11
Half cost of manufacture of notes	53.18. 6

	£201.14. 1

To defray these expenses there was no income. In 1850 the Auckland Bank it had to borrow £300 from the Commissariat Department to

meet current expenses. Wellington's expenditure for the year 1850, was approximately the same. But the office at the latter place manifested a capacity to extend its business from the start. It was not long before a considerable sum was invested in the public funds of Great Britain as required by the Ordinance. In February 1851 the Wellington Branch was enabled to hand to the Lord's Commissioners of Her Majesty's Treasury £2000 for this purpose. By 1856 the sum of £25000 was invested, Auckland's investments were on a much smaller scale. At the end of the year 1855 it had £6000 invested and during this year its income for the first time exceeded its expenditure. The investments of both branches of the Bank were made in British 3% consols and just shortly before the closing of the Bank the total sum of £31000 had been invested in the purchase of £33066.11.11 of 3% consols. The Bank was now self-supporting and on the point of yielding ^{a profit} to the state after providing for past deficiencies. By this time however it was in general disfavour, indeed no sooner was representative Government established in New Zealand in 1852 than an agitation for its abolition arose. Early in the first session of Parliament the matter was brought up for discussion. On 2nd May 1856 Mr. James Macandrew urged in the House of Representatives that the Bank Charter and Currency Ordinances be repealed and moved that provision be made for granting charters of incorporation for the establishment of banking Companies throughout New Zealand, such banking Companies to have power to issue notes payable to bearer on demand subject to the following conditions :-

- (1) That the amount of such issue shall not

///

exceed the amount of the bank's paid-up capital;

(2) That the notes shall be payable in coin at the place of issue only;

(3) That every bank issuing notes shall keep in reserve an amount of coin equal to one-third of its notes in circulation;

(4) That every bank issuing notes shall make monthly returns to the Governor shewing the average amount of its circulation and the amount of coin in reserve

(5) That the Governor shall have the power of inspection in order to verify such returns;

(6) That the name and designation of the copartners of every such bank shall be published annually .. in the New Zealand Government Gazette and in the local papers.

(7) That any person or persons issuing notes payable on demand contrary to the foregoing provision shall be subject to a penalty."

In support of his motion Mr. Macandrew said the existing Ordinances were inapplicable to the present circumstances of the colony. They cramped and paralysed its commerce and discouraged the spirit of enterprise. The Union Bank it was alleged was given a monopoly. To that was ascribed its large dividends ranging up to 30%. The motion of Mr. Macandrew although carried without a division occasioned a debate in which the whole subject of banking in New Zealand was reviewed. Unfortunately parliamentary debates in those days were not fully reported in Hansard. The deficiencies of Hansard, however, were largely supplied by the contemporary Press. There were two important features of the discussion. The first was the

general reprobation of the colonial Bank of Issue. The second was the unanimity with which the Union Bank was condemned as a monopoly abusing its privileges. With respect to the Bank of Issue the burden of the complaint was that the surplus funds were invested in British securities at 3% while the Colonial Government was borrowing at 8% and the Provincial Governments at 10%. Indeed later on in the same session of Parliament an Act was passed authorising the Government to borrow £100,000 on debentures at any rate of interest up to 10%. As Mr. Cargill pointed out in tracing the history of the Bank, Captain Grey originally designed to place the surplus funds in the hands of the Colonial Government for investment.¹ This the British Secretary of State would not approve. It was not to be expected that Colonists would look with equanimity on the withdrawal of many thousands of pounds from their own country to be invested in London at a low rate of interest while they were borrowing money from London at a rate 100% to 200% higher.

The gravamen of the charge against the Union Bank was its lust for profit. Mr. Dillon Bell said "The Union Bank was of no assistance in developing the country; it confined its accommodation to persons of the trading classes. Settlers who were engaged in developing the resources of the country were completely shut out." He gave an instance of a settler - a man of wealth - who was refused accommodation. On this account the settler was compelled to pay a commission to a merchant to arrange an advance from the Bank. The merchant's indorsement was considered sufficient by the Bank and the settler got the money he wanted but only after paying what Mr. Bell

1. The New Zealander, 3rd May, 1856.

regarded as an unnecessary commission to the merchant. Mr. Sewell a member of the Government said that this .. "Bank had been of good service to the Colony but its principle of operations was too much influenced by the mere desire to increase the dividend for the shareholders .. which last year was between 30 and 40%."

At this time Mr. Stuart, Inspector of the Oriental Bank, was in the Colony spying out the land with a view to opening Branches of his Bank. He received the most cordial encouragement from the business men and newspapers of the Colony. Indeed it was largely for the purpose of taking his evidence on the question of .. banking in New Zealand that a select committee was sent up by the House of Representatives on 29th April 1856. His evidence which is reported in the appendix to the Journals of the House 1861^{1.} urges the expediency of unfettered competition in banking and the removal of the existing embargo on note-issue. He stated that the Colonial Bank of Issue stood in the way of banks of discount being established in New Zealand as banks regarded the issue of notes as advantageous to their general business and a source of profit. He alleged that the Banks of Issue in Ceylon and Mauritius had not been successful because in the case of the first Bank the funds were invested in fixed securities so that the notes were not rapidly convertible; while the Bank at Mauritius had .. adopted the policy of the New Zealand Bank and invested its money at a distance thereby attracting capital from the Colony. In answer to a question Mr. Stuart stated that the advantage of a right of note issue consisted in the additional capital thereby obtained for which it paid

nothing. It was a means of issuing credit as capital. Mr. Stuart also expressed the opinion that in a new ... country "a greater elasticity may be extended to banking with safety " than in an old one. He approved of the resolutions submitted to the House of Representatives by Mr. Macandrew. After Mr. Stuart's examination the Committee reported to the House on 28th July 1854. The following are the main portions of the Report :-^{1.}

After reciting the reference - "as to whether it be desirable to maintain the present Bank of Issue or to make any and what alterations therein or to substitute any and what Government Bank in lieu thereof" - the Report states that the "Bank was an experiment and the principal objects he (Lord Grey) proposed to accomplish by it were the economising of capital and the uniting the convenience of a paper currency with the steadiness and uniformity of value which belong to a metallic currency" These objects it states were not attained. "The only ... kind of capital it was designed to economise was the ... metallic coinage and by monopolising the right of note issue it prevented the use of other forms of wealth as a basis for a paper currency. Hence the unsoundness of the measure in its limitation of the circulating medium or currency instead of allowing that expansion of the .. latter which the extent of commercial operations from time to time requires, and which a paper currency, based upon property in the Colony, not upon coinage gold or silver would always be calculated to afford under judicious management." "The public of Auckland never appear to have been very favourably disposed towards the circulation of this paper, or inclined to use it generally for

their trading purposes preferring the gold coinage. The original source from which its circulation sprang was that of the Government Expenditure. In Auckland especially the dealings of the Bank are almost entirely confined to the Colonial Treasurer and the Union Bank, one paying in the gold and the other drawing its out. The whole transactions for the month of June, at this Branch, amounted to £6058 in which the public participated only to the extent of £385, while the dealings with the two establishments before mentioned were £5703." The total interest accruing up to 5 July 1854 is put down at £965; total expenses for Wellington £620; for Auckland £850; for London £120 making altogether £1572. A further sum however of £50000 was awaiting investment ... which would bring the interest to £600 a year an amount more than sufficient to meet annual expenses for the ... future."

The last monthly returns for June 1854 - are embodied in the Report and were -

Notes issued

Wellington	£32842
Auckland	7481

40323

Coin invested

Wellington	15000
Auckland	1000

Coin in Chest

Wellington	12842
Auckland	6481

£40323

The British funds in which the money had been invested had fallen 15% causing a diminution of capital of about

£24000. This interfered with that steadiness of value which coin generally possesses.

The expenditure and receipts for the whole period of the Banks existence were

	<u>Expenses</u>	<u>Earnings</u>
Auckland	£850	£105
Wellington	620	860

NET RESULT

Auckland	£745	loss
Wellington	240	gain.

"The objections to which the present Bank of Issue is open are" says the Report" Firstly - that it is a measure uncalled for by the circumstances of the Colony, an .. experiment untried anywhere else, and particularly unfitting for a young Colony requiring the utmost means for developing its industry and resources. Secondly - that it limits the currency to the quantity of gold coinage that may happen at any time to be in the country. Thirdly - that the commerce of the Colony requires a currency or representative of value which should be both creative and expansive in its ... operations. Fifthly - that it neither creates the coinage which its paper currency had displaced, nor does the latter possess the expansive character of a currency which should develop and bring into operation the real capital and industry of the colony, whose increasing resources and wealth require the establishment of a system of banking tending to their more effective and rapid development. Sixthly - that this most desirable object will not be accomplished by any system which shall base the currency, as the present one ... does, exclusively upon the gold coinage."

On 2nd May 1856 the Select Committee reported to ..

Parliament :-

That this Committee are of opinion that it is necessary to afford facilities for extending .. banking operations in this Colony and that any ob - structions now existing should be withdrawn as speedily as possible; for which purpose the prohibition of the issue of notes by private banks should be forthwith re - pealed.

On 29th July 1856 an Act was passed providing for the winding up of the Colonial Bank of Issue and for the immediate redemption of the bank's notes. Pro - vision was made for arranging with the Union Bank to pay the notes over its counters. An agreement carrying out this purpose was effected and all the notes were in due course redeemed. In the meantime while this was being accomplished the Act gave power to the Governor to invest any money held on account of the Bank of Issue on the security of debentures charged on the public rev - enue. This provision was made for investing, in easily realisable securities in New Zealand, the money lying in the chest of the Bank of Issue pending demand for it for purposes of redemption. By this means loss of inter - est on temporarily idle money was avoided.

The study of the history of the Colonial ... Bank of Issue leads to the following conclusions :-

1. At the time of its establishment there was urgent need of a paper money of general acceptability. There was only one private bank capable of supplying that need namely the Union Bank. That Bank however in pur - suance of its policy of contraction, adopted after the Australian crisis in the early forties, not only refused to meet the expanding requirements of the Colony but

practically withdrew banking facilities unconnected with intercolonial exchange. As a consequence State enterprise seemed at the time to hold out the only hope of removing the serious impediment of commerce occasioned by a stringent and slowly circulating currency. Practically the experiment was not so much an encroachment on private enterprise as an assumption of a function which private enterprise refused efficiently to discharge.

2. Its inability to become established as a permanent institution was inevitable on two grounds. In the first place it was scarcely conceivable that the people of New Zealand pressed for money for purposes of development would allow the State Bank to invest its ... funds in England at 3% while the colony was borrowing at 10%. An illustration of this contention is afforded by "The Debenture Act 1856" which provided for the borrowing of £100,000 on debentures and authorised the payment of a rate of interest up to 10%. Had the British ... Government sanctioned the investment of the Bank's funds in New Zealand Debentures as was urged by Governor Grey, the most popular objection to the Bank would have been removed. New Zealand investments however would not have provided that safe and liquid security which was ... essential to ensure the ready convertibility of the notes. In the second place the arrogation to the State of a ... monopoly of the note issue was a discouragement to the establishment of private banks in the Colony. The settlers needed a paper currency but they wanted equally ... the facilities which banks of deposit and discount afford. These functions of such banks the State did not exercise and private banks were loath to do so without the privilege of note issue. The subsequent history will show

that banks in New Zealand have been looked upon rather as lending institutions than ~~an~~ institutions for the supply of a sound currency. At least the general public have been in the habit of stressing the former function. Whilst the establishment of the Colonial Bank of Issue was primarily the outcome of an economic theory which the Governor and the Colonial Secretary of State desired to experiment with, it was also more or less a natural expression of the circumstances of the time and the Bank .. passed away when the circumstances changed and sufficient inducement was offered to private enterprise .

The closing of the Colonial Bank of Issue closes a chapter in the history of Colonial banking. It was the last experiment of the State for nearly Fifty ... years in the sphere of banking. ~~Indeed~~ Indeed at no time since has there been any attempt on the part of Government to provide a medium of exchange.. The student comes across no more debentures circulating as money, no more convertible or inconvertible State notes, and no more drafts of Government Officials on the public Treasury being tendered in payment of wages and debts.

Indeed there was to be no further in -
 cursion by the Government into:the sphere of banking for nearly 50 years. During this long period the State withdraws from the field of participation in banking business and is satisfied with the exercise of such control of banking operations as seems needful to secure the ... solvency of banking institutions. It recognises banking as the legitimate province of private enterprise and is only concerned to ensure adequate safe-guards for the protection of the public. The activities of reformers

who proclaim the gospel of a State Bank are of course .. never suspended, but the investigator would search in vain for any authoritative pronouncement approving State Banking like that contained in the despatch of Lord Grey to Governor Grey. At any rate until 1894 when Parliament came to the salvation of the Bank of New Zealand, .. there is only that kind of State interference which the .. most conservative of economists agree is essential in the public interest.

CHAPTER VI.SEVERAL BANKS:THE ORIENTAL BANK:

The first Company to take advantage of the suspension of the Colonial Bank of Issue was the Oriental Bank. It was incorporated by Letters Patent of Her Majesty Queen Victoria on 30th .. August 1851, by which it was empowered to carry on business in New Zealand among other colonies. By the Bank Paper Currency Act 1856 of New Zealand the Governor was authorised to grant the right of note issue to banks so incorporated, and also to the Union Bank. By .. proclamation, 3rd August 1857, this right was given to the Oriental Bank. This Act of 1856 was applicable to all banking Companies established by Royal Charter, but was specially designed to meet the case of the Oriental Bank. The proper course was to have repealed the Paper Currency Ordinance 1847 and enacted a measure of general application the Bank Charters Act 1851. to supplement/ This course was urged repeatedly by the Wellington .. Chamber of Commerce. The Bank Paper Currency Act 1856 was of no .. assistance in the establishment in New Zealand of local banking companies or of banks incorporated, other than by Royal Charter, ~~except the Union Bank was specially included in the Act.~~ In the annual reports .. of 1860 and 1861 of the Chamber of Commerce at Wellington the Government was strongly urged to repeal both the Paper Currency Ordinance 1847 and The Bank Paper Currency Act 1856. In was pointed out that they were an impediment to the establishment of competing companies with the Union and Oriental Banks, ~~while~~ ^{and} emphasis was laid on the need of every encouragement to competition on account of the paucity of banking facilities in the Colony. The Oriental Bank opened branches at Auckland and Wellington immediately after the Proclamation of August was made. Its head office in the Colony was located in the former town. On 19th October of the same year the Governor by warrant released the Bank from the obligation to redeem its notes at the head office as well as the .. office from which they were issued. There appears to be no record of

the reason for this and the principle of making notes redeemable at the place of issue and at the head office was returned to in 1861 when the Bank of New Zealand was established. Probably the concession arose from the difficulties of communication between the different branches. In those days there were neither roads nor railways connecting Auckland and Wellington and there was no regular postal service. Consequently, at a time of pressure the Auckland Branch might find itself embarrassed by the presentation not only of its own notes but of those of Wellington and other places: these notes it would be unable to unload upon the Branches of issue except after perhaps many weeks of delay. The first published return of this Bank^{was} for the quarter ending December 1857. It shewed a paid-up capital of £1,260,000 and a reserve fund of £252,000. The last dividend was 12%. The assets and liabilities in New Zealand were the following :-

LIABILITIES:

Notes in circulation	£4,008. 0. 0
Bills " "	30,505. 8. 6
Balances due to other banks	19,758.11. 4
Deposits not bearing interest	12,950. 7. 0
Deposits bearing interest	1,731.19. 7

	£68,954. 6. 5

ASSETS:

Coin	£12,842.11. 0
Bills and notes of other Banks	1.112. 0. 0
Balances due from other banks	9,333. 9. 7
All other debts due to the Bank including advances and discounts	44,685. 7. 4

	£67,973. 7.11

The advent of the Oriental Bank was greeted with marked satisfaction throughout the Colony. The newspapers of the

day uniformly condemned the virtual monopoly exercised by the ..
 Union Bank. It was a matter of general complaint that this ..
 Bank obtained from local depositors all the capital it employed
 in the Colony, and while its minimum discounting rate was 8% it
 paid no interest on deposits. Further-more it pursued such a
 conservative policy with respect to advances that many commercial
 men and settlers were thrown on the mercy of private money lenders
 for assistance. Extortionate charges were frequently paid for
 accommodation by substantial men. This was so in a few settle -
 ments where branches of the Union Bank were in operation. But it
 was still more accentuated in the settlements unprovided with any
 banking facilities. Until 1857 there was no bank in Otago and ..
 money lenders could obtain from 10 to 20% on the best security and
 it was by no means uncommon to pay rates of interest ranging from
 30 to 50%. It is unnecessary to dwell upon the impediment to pro-
 gress thereby occasioned. The following from the editorial ..
 columns of the "New Zealand^{er}" referring to the prospect of the estab -
 lishment of the Oriental Bank, is typical :-

"Looking to the enormous profits realised by the Union ..
 Bank of Australia there must be ample room for two Banks in this ..
 City and Province. The sooner there is competition in the money
 coining trade of discount and interest, the sooner will Auckland be-
 gin to revive from the unnatural state of depression under which
 she has for some time laboured :- for the sooner among other much ..
 needed monetary reforms, will bona fide landed property become a ..
 legitimate negotiable security for advances, and thus again will pri-
 vate capitalists have to learn to be content with a moderate rate of
 interest. And while a stimulus will be given to our commerce an ..
 equal impetus will, we believe, be given to our agriculture, by en -
 abling those who have invested their whole capital or nearly so in

in land to make part of that at present unproductive capital speedily productive both to themselves and the Province."

Their complaint that the Bank refused to transform the landed wealth of the Colony into money is very significant. It indicates the pressure put upon the banks in those early days to depart from legitimate banking business. The importunity of colonists is not only intelligible but quite to be expected in their circumstances. A great deal of their capital was necessarily sunk in fixed forms of wealth such as land and buildings. With advancing population and freedom from speculation there could be no risk of depreciation of this kind of property and the banks were pressed on every hand to advance money on the security of it. Yet it was just the class of security that experience has taught bankers to avoid. So far as the Union Bank refused the clamant demands for accommodation on the security of land it was simply resisting the temptation to forsake a first principle of legitimate banking and to that extent it must be exonerated from the blame which was so persistently poured upon it. In later times the Bank of New Zealand fell on troublous times by reason of departing from this wholesome principle.

The outcome of the establishment of the Oriental Bank in the Colony was most beneficial to trade and enterprise. As had been predicted banking accommodation was at once offered on easier terms to the public. It offered by advertisement in "The New Zealander" 8th August 1857, cash credits on "notes bearing at least two approved names unconnected in general business and not having more than four months to run." It paid interest on deposits at the following rates :

On deposits on 3 months' notice	2½%
" " " 6 " "	3%
" " " 12 " "	4%

The effect of the competition on the Union Bank was immediately apparent. Within a week, the latter published a ..

similar advertisement offering the same rates of interest on .. fixed deposits and offering Drafts and Letters of Credit on any of its Branches in New Zealand and Australia at a rate of premium not exceeding 1%. Thus besides giving, for the first time, interest on deposits the rate of exchange on other parts of the Colony was reduced from 2% to 1%. The terms of business offered, however, by the Oriental Bank were still more favourable than those of the Union Bank in one or two particulars. The former alone granted cash credits, remitted money for its constituents free of any .. charge but the current rate of exchange, and gratuitously supplied cheques and pass books. The lessening of the cost of exchange on London was an urgently needed adaptation to the monetary conditions of the time. The place where the money of the banks was most wanted was in New Zealand. To receive money in the Colony under contract to pay an equivalent sum in England was obviating to some extent the transfer of money from London to New Zealand. For many years there was far more money coming into New Zealand .. than was going out. It would seem that under unrestrained .. competition the exchange conditions were occasionally such as .. would have led to the offer by the banks to sell their drafts on London not only free of any charge at all but even at a discount.

The Oriental Bank continued operations for four years and then suddenly withdrew from the Colony. No reason was publicly stated but it was commonly reported that the Bank found it could employ its resources more profitably elsewhere. Possibly the Bank was already entering on that time of difficulty which .. ended in its suspension in 1865. The last returns for its New Zealand business were for the quarter ending 31st March 1861. In June 1861 arrangements were made with the Bank of New South .. Wales whereby the latter took over the premises and business of the retiring Bank. The withdrawal of the Bank to some extent injured

the credit of the Colony but the effect was minimised by the opening of Branches of the Bank of New South Wales

THE BANK OF NEW SOUTH WALES:

This Bank commenced business in Sydney, New South Wales, on 8th April 1817, as an unincorporated Co-partnery. The chief motive governing its founders was to supply to commerce a good and reliable medium of exchange. Like the Bank of Amsterdam it arose to overcome the deficiencies of the currency. There was not nearly enough coin to meet the requirements of trade and what there was consisted of a confusing variety of coins of several nations. The deficiency of coin was made up by a paper money, indiscriminately issued by business men, with a very dubious convertibility. Governor Macquarie summoned a meeting of citizens on 22nd November 1816 to consider the position and at this and a subsequent meeting a week later, resolutions were passed to found " a public colonial bank ". The capital was fixed at £20,000 in £100 shares and the objects of the Bank were declared to be to establish a sterling currency to afford a safe depository for money, and to make advances at interest. In May the Bank ordered from London a supply of bank-notes of denominations varying from 2/6 to £20 together with stationery and firearms. The following month, the Bank had deposited in its chest £8,751, 8. 8 comprising 3,008 Spanish dollars, 725 dumps, 3 English shillings, 13 pennies, and bills on the Treasury. By the end of the year the Bank had £5,635 notes in circulation. The course of its early progress, however, did not run smoothly. In 1820 it suffered considerably at the hands of the forger who counterfeited a large number of 5/s notes. Four years later the shortage of English coin forced it to adopt the Spanish dollar as the standard and measure of value and for two years its balance sheets were expressed in terms of the dollar. The English coinage was resorted to in 1826 and the

capital of the Bank doubled. During these years the Bank by no means enjoyed the perfect confidence of the public and several .. times had to sustain a "run". It not only managed to survive but gradually acquired a secure position and in 1836 the paid-up capital was £100,000. Like all Australian Banks, it found itself in troubled waters in the depression of the early forties .. which succeeded the collapse of a land boom. In 1844 its capital stood at £208,545, but the capital that year was written down considerably to meet losses. Partly by this means, and partly by a return of capital to shareholders the capital was reduced to £104,272.10. In August 1850 the Bank was reconstituted. The old copartnery gave way to a company incorporated by act of the New South Wales Legislature and the Deed of Settlement was signed 23rd August. From this time the Bank began to extend its .. operations beyond Sydney and branches spread rapidly with the development of the goldfields.

On 14th June 1861 the Bank commenced business in New Zealand. It obtained incorporation in this Country by "The .. Bank of New South Wales Act 1861". The principles embodied in this Act with respect to notes, liabilities and banking generally are precisely the same as those laid down in the Bank of New Zealand Act and will be fully treated when considering the Bank of New Zealand. The head office of the Bank was fixed at Auckland As already mentioned the Bank took over the business of the Oriental Bank. Its paid-up capital at this time was £750,000 in .. shares of £20 each and its reserve fund £210,482. The notes in circulation were £483,814; the deposits and other liabilities £4396,399 and the rate of dividend 15%. In 1864 the directors issued £250,000 new capital at a premium of £6.13. 4. The .. capital stood at the amount of £1,000,000 until 1886, when a further increase was made of £250,000. This time the premium was

upwards of £20 a share. At the figure of £1,250,000 the capital remained until the crisis in 1893 when it was raised to £2,000,000. By successive further increases it reached the amount of £3,500,000 in 1914. It is not possible to ascertain the profits earned from the New Zealand business alone but during the gold-digging decade .. they were enormous. Stories of the almost fabulous gains of ... gold-buying are still current among bank officials. In 1866, the high-water mark of gold yield in New Zealand, the Bank paid a ... dividend of 20% and this was immediately after an increase of capital of a quarter of a million. The net profit that year was no less than £204,605. The Bank has never since experienced so profitable a year. The Reserve Fund has grown steadily from £210,482 in 1861 to £2,350,000 in 1914.

The Bank of New South Wales weathered the banking .. storm of the early "nineties" in Australia under circumstances which reflected great credit upon its management. It underwent .. neither suspension nor reconstruction, but actually increased its capital in the year when the crisis reached its climax, and disposed of the new shares at a premium of £5. No doubt the Bank was loaded with a large volume of unliquid assets, but it speaks well for the public confidence it inspired that it should have been able to increase its available resources by raising new capital on such favourable terms. The other prudent measures adopted to cope with the general collapse of banking were indicated in the .. address of the president at the meeting of shareholders 30th October 1893: "In putting our proposals (re capital) before you, we .. clearly laid down that it is our determination while we are in .. charge of the Bank's affairs to keep invested a sum, equal to the additional capital received, in British consols and other such solid and readily convertible first-class securities of like nature, as will serve for a thoroughly effective second line of defence, ..

behind the substantial amount of coin and cash balances which it has always been the policy of this Bank to hold."

"It will be patent to all of you that the crisis through which this and the other colonies have passed has imposed upon us the necessity of making larger provision out of current profits than any previous experience could have taught us to be necessary, and we are sure that you will approve every act of ours which is in the direction of valuing securities at a low level. As far as is possible, a searching investigation has been made into every item of our securities, and we have provided what we believe to be required on that basis."

It was fortunate for New Zealand that the Bank managed to escape disaster. Had failure overtaken it, deposits in New Zealand to the amount of £2,215,621 would have been imperilled and advances to the amount of £1,929,295 would have been subjected to a sudden calling-in to the great embarrassment of commerce. To some extent New Zealand suffered by the withdrawal of funds, through the channel of the Australian banks with New Zealand branches, to meet the great need in Australia. This was the subject of much complaint by New Zealand journals and will be considered more fully when dealing with the causes of the crisis which overtook the Bank of New Zealand. The Bank of New South Wales, the Bank of Australasia and the Union Bank were all assisted in the critical times about the year 1893 by their connection with New Zealand. "In New Zealand there is a gradual but sure accumulation of wealth, and that colony is a model of economy."¹ It offered a convenient recruiting ground for funds. But to relieve a stringency in Australia by such means was to affect injuriously financial conditions in New Zealand. "Old residents in New Zealand will remember how a stock

and station firm there was ruined by the peremptory demands of the Bank of New South Wales, demands inspired by a drought in ..
1.
Australia."

THE BANK OF AUSTRALASIA:

The Bank of Australasia was founded by Royal Charter on April 28, 1835. The purposes which the Bank was designed to subserve are plainly set forth in the following prospectus.

"Prospectus of the Bank of Australasia.

Incorporated by Royal Charter.

Capital £200,000.

"The above-named Company has been formed for the purpose of establishing banks of issue and deposit in New South Wales, Van Diemen's Land, and other settlements in Australasia.

"The Charter (the terms of which have been fully agreed upon between His Majesty's Government and the Directors) is now in course of preparation; it constituted the Company a body corporate and invests it with the powers and privileges usually granted to .. Corporations, limits the responsibility of the shareholders to .. double the amount of their respective shares, and authorises the .. Directors, with the sanction of the Lords Commissioners of His Majesty's Treasury, to increase the capital from time to time by the creation of additional shares, such additional shares to be first offered to the shareholders in the Company. "The Charter requires that one half of the Company's capital shall be paid up before the commencement of business, and that the entire capital shall be paid up within two years.

"The capital of the Company is therefore divided into .. 5,000 shares of £40 each (500 of which are to be reserved for allotment in the colonies)

"The management of the Company's affairs will be vested

in the London Board of Directors; and the banks in the colonies will be conducted by local directors, and other persons duly qualified, who will be appointed by the directors in London. A general meeting of proprietors will be annually held in London, at which a full report of the Company's affairs will be submitted to the shareholders."

"The directors have been long engaged in maturing this undertaking and they are fully satisfied that in no part of the world can capital be employed more advantageously and securely, than in carrying on the business of banking upon sound principles in the colonies of Australasia.

"Arrangements will be made forthwith to enable persons to effect remittances of money between Great Britain and the aforesaid Colonies and inter-colonially."

The Bank's sphere of operations was thus limited to Australasia. Starting in Sydney, it rapidly spread its branches over the continent of Australia, following settlement with its banking facilities. The Australian gold discoveries of 1850 were a powerful stimulus to banking. Like other banks the Bank of Australasia made immense profits out of gold buying. By 1855, the rate of dividend was no less than 20%. Out of the profits, too, was created in 1853 a Reserve Fund of £200,000. In two years, the deposits increased more than fivefold rising from £707,566 in 1851 to £4,077,153 in 1853. Great expansion of the note issue is noticeable, springing from £149,057 in 1851 to £1,129,050 in 1854. From this it is evident that the gold was being paid for by bank notes. By 1855, however, a large quantity of gold had passed into circulation and the use of paper declined. From 1860 to 1914 the note-issue has been approximately between £300,000 and £500,000.

It was in 1864 branches were opened in New Zealand in the cities of Dunedin, Christchurch and Auckland. The first reference

in the official reports to this extension of business is found in the report of the Board of Directors in 1863: "With a view to .. the general requirements of the business, and in consequence of the great increase in the trade of New Zealand the directors have resolved, after much and anxious consideration, to extend the operations of the Bank to that colony. To enable them to carry out this purpose, they have, under the power vested in them by the Charter and with the sanction of the Lords of the Treasury decided on .. calling up the remaining portion of the authorised capital namely, £300,000." This brought the capital of the Bank up to £1,200,000 at which amount it remained until 1883. The early years of activity in New Zealand were not attended with marked success. The Bank had scarcely got foothold before the gold yield in New Zealand began to decline and the country was plunged into the depression of the late "sixties". In addition, Australia suffered considerably from drought which reacted upon the Bank's operations in New Zealand. In the Annual Report, 1868, reference was made to the commercial .. difficulties with which the Bank had had to contend in New Zealand and to considerable losses which had been thereby occasioned. There occurred in 1868, the native disturbances in Auckland, which dislocated trade and to some extent impeded the Bank's activities. The war between Germany and France still further embarrassed colonial .. trade and therefore banking by temporarily withdrawing continental buyers from the colonial wool sales. The fact is that New Zealand was overtaken by an acute commercial depression (considered in a subsequent chapter) before the Bank became well established.

Since the Bank was opened in New Zealand its average .. yearly dividend has been approximately 12% and it has in addition carried to Reserve £2,520,100. Up to 1874 the Bank had a Guarantee Fund to protect the capital and this fund, amounting to .. £210,000 in that year, was specially invested in consols and

Government bonds thereby giving no assistance to the ordinary business of the Bank. In 1874 a Reserve Fund was created which was employed for general purposes and in which the Guarantee Fund ultimately merged. The capital of the Bank stands in 1914 at £2,000,000 being £720,100 less than the Reserve. By its charter the Bank had no power to increase its capital beyond £2,000,000

Like the other Australian banks doing business in New Zealand, this Bank escaped catastrophe in 1893.

THE UNION BANK:

The early history of this Bank has been already related. It enjoyed the merit of being the first bank established in New Zealand. "The New Zealand Journal" of 4th July 1840 makes the following reference to its enterprise in commencing .. banking operations at the very inception of colonisation. "In establishing the New Zealand Branch, the Directors, have ... evinced sound judgment; but it required considerable moral courage to venture to take the step, which was certainly a bold one, at the time it was taken." The Journal goes on to enumerate the difficulties which beset the path of the Company. The .. British Government were at the time opposed to the raising of New Zealand to independence as a separate Colony, and consequently .. considerable uncertainty existed concerning its future. The disposition of the natives was not ascertained but the Missionaries were hostile to the introduction of a bank and "among those who were interested in other colonies, a large number of narrow-minded men were naturally inimical to the Company's proceedings."

In July 1844, an Ordinance was issued by the Government of New Zealand for the purpose of facilitating legal proceedings by and against the Bank. Its Deed of Settlement was ordered to be recorded in the Supreme Court. The head office of the Bank was in London.

~~"among those who were interested in other Colonies, a large number of narrow-minded men were naturally inimical to the Company's proceedings".~~

~~In July 1844 an Ordinance was issued by the Government of New Zealand for the purpose of facilitating legal proceedings by and against the Bank. Its Deed of Settlement was ordered to be recorded in the Supreme Court. The Head office of the Bank was in London.~~

For many years its business in the Colony especially in the branches outside Wellington was of a very limited and circumscribed character. Of this, the following contemporary reference to the opening of a branch in Lyttelton is significant: "Its operations are at present confined to advances on letters of credit which are paid by cheques on the branch at Wellington"¹. The disfavor into which the Bank fell through its lack of response to the demand for more generous accommodation has been abundantly illustrated in an earlier chapter. Again and again it was accused of drawing money from New Zealand to feed its Australian business. For instance according to the Government Gazette 29th June 1861, its assets in the Colony were then less than its liabilities. The fact was that the Bank was receiving more from the public in the way of deposits than it was lending out in the way of advances. In other words instead of supplying capital to the Colony it was withdrawing it. The business of the Bank expanded greatly with the opening of the gold fields about 1860 and in the early "sixties" its profits from the Otago "diggings" alone was probably between £30,000 and £40,000 a year.

1. Lyttelton Times, 18th January 1851.

In 1880 the Bank was registered under the English Companies Act with Limited Liability. It had previously been a company of unlimited liability without Royal Charter.

The failure of the Glasgow Bank in 1878 revealed the insecurity of the legal position of shareholders and determined the Company to seek the shelter of limited liability.

On 3rd February 1880 the following resolution was confirmed at a Special General Meeting of Proprietors : "That the Union Bank of Australia be registered under the Companies Acts 1862 to 1879 as a Company limited by shares with the name of The Union Bank of Australia Limited" and that the nominal amount of the capital of the Bank be increased from £1,500,000 to £4,500,000 by increasing the nominal amount of each of its 60,000 shares from £25 to £75 no part of such increased capital being capable of being called up except in the event of and for the purposes of the Company being wound up". It was section 5 of the Companies Act 1879 which required that $\frac{1}{4}$ ths of the capital should be held as a reserve to meet liabilities to creditors in case of liquidation. The shareholders' liability on the bank-notes remained unlimited. After the new incorporation the Capital and Reserves of the Bank stood as follows:

Capital in 60,000 shares of £75 each consisting of:-

£25 per share paid		£1,500,000
£50 per share	Reserve Liability	£3,000,000
Total Capital		£4,500,000
Reserve Funds		816,500
Total		£5,316,500

The early "nineties" brought the Bank into the vortex of the Australian banking crisis. By Agreement 11th April 1892 it absorbed the Bank of South Australia which had been

overtaken by disaster. The Union Bank concerted resolute measures with the Bank of Australasia to avoid suspension of cash payment.

1.
 "Then upon one occasion Mr Finlayson was informed late upon Sunday night, April 30th, that it had been decided by the Government, quite without reference to him, to suspend all banking operations throughout the Colony of Victoria for five days, commencing from the following morning, and he had, upon his own responsibility, in concert with Mr Sawers, of the Bank of Australasia, at once to issue instructions to all his managers in Victoria to open the bank as usual in spite of the proclamation. I need hardly tell you that when he was able to telegraph to us we cordially approved of his action in this matter. But I am sure you will see that it was a momentous occasion on which we have to act first and telegraph after. Then, again, there was the authorisation of bank notes as legal tender in the colony of New South Wales. Mr Finlayson felt very disinclined to put his customers to the possible inconvenience of having to accept notes; and again, in concert with Mr. Sawers, of the Bank of Australasia, he gave instructions that for the present customers were to be paid as usual, in coin or notes at their option. And though this was found in practice to mean that these two banks would have to meet the coin requirements of the colony of New South Wales, and had to be somewhat modified, yet its adoption did good, and tended to restore to people's minds some of that confidence which is so much wanted at such times as these."

In May 1893 the Bank shipped two separate parcels

1. Chairman's address Annual Meeting Union Bank 31st

July 1893.

of gold of 250,000 sovereigns each from London to Australia. New Zealand was made to suffer from the efforts of this and the other Australian banks to strengthen their liquid resources in Australia. The quarterly return of the Union Bank for September 1893 shewed that the Bank was borrowing from the people of New Zealand in the shape of deposits more than £1,000,000 in excess of what it was lending to them in advances and discounts. Its cash reserves in New Zealand also diminished. The outcome of this policy was seen in the increase of specie held in Australia. In August 1891 it was £2,576,585; in February 1894, it was £4,295,748.

Since its triumphant emergence from the Australian crisis, the Union Bank has prospered. Its capital was £1,500,000 and its Reserve Fund £1,649,002 in 1914.

The Bank of Otago and other Banks.

The stimulus to prosperity given by the gold discoveries led to the formation of a number of new banks in the early "sixties". The Bank of Otago Limited was established in 1863 under the English Companies Act 1862. Its registered office was in London and most of its shareholders were resident in England but it was promoted by the commercial men of Otago, and its business was limited to New Zealand. It received incorporation in the Colony by "The Bank of Otago Limited Act 1863" and its memorandum and articles of association were recorded in the Colonial Supreme Court. The nominal capital was £500,000. The independent existence of this Bank ceased in 1874 when it

was absorbed by the National Bank. Its last quarterly return was published 30th September of that year.

The New Zealand Banking Corporation Limited was incorporated in 1862 under the English Companies' Act of that year. It opened its first office in Dunedin 12th December 1862. Its capital was £600,000 in £100 shares. It enjoyed no right of note issue and on failure of its application in 1864 to Parliament for this privilege it closed its doors.

The Commercial Bank of New Zealand Limited was founded under the English Companies' Act 1862 and received incorporation in New Zealand by Statute 1864. Its nominal capital was £600,000. It carried on business for two years only. Its last return was for the quarter ending 30th June 1866, after which it went into liquidation.

The Bank of Auckland was also incorporated by Statute 1864 ~~with a nominal capital of £-----~~^{1.} and expired two years later publishing its final return 31st December 1866.

The histories of the Bank of New Zealand, the National Bank of New Zealand Limited, and the Colonial Bank of New Zealand are so interwoven with the history of the banking crisis 1893-6 as to make it advisable to relate them in the course of following the general movement of banking in the Colony.

1. I have been unable to ascertain the nominal capital of this Bank but the paid-up capital was £26,325 in 1865.

THE BANK of NEW ZEALAND:

On 7th June 1861 a meeting of representatives ... commercial men was held in the Office of the New Zealand .. Insurance Company, Auckland, to consider a proposal to establish a local bank under the style of the "Bank of New .. Zealand". Up to this time all the banking companies doing business in the Colony had their head-quarters in England or Australia. They were foreign companies the shares of which were almost exclusively owned by people who had never resided in or seen New Zealand. The branches of these .. banks established in New Zealand were subject to foreign management and their profits were annually sent abroad to enrich foreign capitalists. The meeting in Auckland resolved to promote a banking institution, the proprietors of which should, in the main, be resident in New Zealand. By this means it was hoped to identify the Bank with the industrial and commercial development of the colony and to make the .. interest of the shareholders as far as possible one with .. that of the customers of the Bank. The foreign banks had to some extent estranged public sympathy by the huge profits they had withdrawn from the Colony and the manifest subordination of colonial interests to the requirements of the .. larger field in which they were operating in Australia. The meeting in Auckland was an outcome of the general discontent and the prospectus which was shortly issued clearly expresses the patriotic grounds upon which the project of a New Zealand bank was founded.

"It is manifest to those who have directed attention to the subject, that the banking establishments in New Zealand have derived immense profits, which are payable entirely to a foreign proprietary, from a trade carried on with the funds of the Colonists; a circumstance which must lead to the con-

-sideration whether the colonists of New Zealand are not now in a position to enjoy, and entitled to receive, whatever advantages can be derived from the employment of their own capital.

Another consideration which should unite the .. colonists of New Zealand in an effort to establish a New Zealand bank, is this, no foreign bank will study the interests of New Zealand; but the interests of such an establishment are regarded as paramount; the New Zealand branches .. being of necessity made to feel the effects of financial .. pressure in other colonies, and accommodation is given or refused, frequently, not according to the requirements of the bank's customers in New Zealand, but measured by the bank's engagements and necessities elsewhere. A New Zealand Institution would not be disturbed by these influences; its capital would be specially devoted to New Zealand interests.

A reference to the bank returns, published periodically in the Government Gazettes of the colony, will show the very large profits made from the deposits of the Colonists. What foreign banks have for many years done for us with our own funds, we now propose to do for ourselves, by local effort and management.

It is therefore proposed to establish on a broad and permanent basis, a banking institution capable of doing the present banking business of New Zealand, and susceptible of expansion with a view to meet the requirements of that prosperous future which it is believed will certainly and shortly be realized for New Zealand."

The appeal for the subscription of the public met with a quick and generous response and on the 2nd July 1861 the Deed of Settlement creating the banking company or co-partner~~y~~ entitled the Bank of New Zealand was duly signed sealed and delivered. Clause 5 of this indenture set forth the objects of the Company, and this clause in conjunction with clauses 60 to 64 and 66 defines the limitations within which the bank is to operate. The substance of these Clauses is contained in Section IV of the New Zealand Bank Act 1861 by which the Company was incorporated. In view of the fact that the subsequent misfortunes of the bank arose from its violation of the spirit if not of the letter of this section it is worth while to reproduce it.

"It shall be lawful for the said Corporation subject to all the restrictions and provisions herein contained to carry on the business of a bank of issue discount and deposit in the Colony of New Zealand and to make loans of money on cash credit accounts promissory notes bills of exchange or letters of credit and on other securities of the like nature or on personal security. And it shall be lawful for the said Corporation to deal in money bullion specie precious metals and exchanges of and with all countries and in notes bills or other securities for money and generally to transact all such other business as it is or shall or may at any time hereafter be usual or lawful for establishments carrying on banking in all its branches to do or transact including therein the dealing in money bullion or specie precious metals or in notes or bills and to establish agencies or connexions in relation to the said business in any part of the world and to give letters of credit on agents and banking connexions.

"abroad but it shall not be lawful for the said Corporation to hold shares in its own stock nor advance or lend to any shareholders or proprietors of shares in the said Corporation any sum or sums of money on the security of his share or shares nor invest lay out employ advance or embark any part of the capital or funds of the said Corporation in the purchase of lands houses or other real or leasehold property whatsoever (save and except as herein specially provided) nor of any share or shares in the capital stock for the time being of the said Company nor in any trading or mercantile speculation or business whatsoever not usually considered as falling within the ordinary and legitimate purposes and operations of banking establishments Provided always that nothing herein contained shall invalidate the lien secured by the Deed of Settlement to the Company over the shares belonging to any proprietor becoming indebted or coming under engagements to the Company or making default in the fulfilment of any covenants in the said Deed of Settlement contained or to prevent the Company from holding the shares forfeited by such default for the purpose of sale as provided in the said Deed of Settlement And provided further that nothing herein contained shall be taken or construed to prevent the said Corporation from taking as collateral Security for any advances of money made by the said Corporation or any money due to the said Corporation any lands houses or ships or from taking security by the hypothecation of bills of lading for the payment of any bill or bills of exchange drawn against any shipment of

"gold wool tallow or other Colonial produce or any other description of merchandise shipped for exportation either to any port or place beyond the sea or from one part to another within the said Colony."

It is noticeable that the Deed empowers the Directors to advance money on cash credit accounts, promissory notes, bills of exchange, or letters of credit and other securities whereas the Act qualifies the general words "other securities" by adding the significant words "of the like nature or on personal security". The troubles of the "eighties" and "nineties" sprang from the departure from the recognised banking principle of lending money only on personal or easily realisable securities. The original capital of the Bank was fixed at £500,000 to be contributed in 50,000 shares of £10 each. Provision however was made for commencing business on the subscription of £250,000. No person was allowed to hold more than 1500 shares. The qualification of a director was the ownership of 200 shares and strangely enough a similar qualification was required of the auditors. Thus directors and auditors were elected out of a very limited class of proprietors. The requirement of a large financial interest while securing a deep concern in the welfare of the Bank, by unduly narrowing the area of selection, made it possible for

the small body of large proprietors to keep concealed ..
 from the bulk of the shareholders important matters
 connected with the management. The utterly reckless ..
 policy pursued for many years in making advances, was hid-
 den from the shareholders under roseate balance-sheets,..
 with grossly over-valued assets and grossly under-valued
 bad debts, until 1888, when the accumulated difficulties of
 the Bank made disclosure unavoidable. The majority of
 the directors and the auditors are now appointed by the
 Government without regard to the proprietorship in the ..
 Bank and the qualifications of the directors directly re-
 presenting the shareholders has been reduced to 100 shares.
 This change was effected by the Bank of New Zealand Share
 Guarantee Act 1894 when the State assumed the right of
 nominating the auditors, gave them extended powers and
 required them to report to the Government. The appoint-
 ment of State auditors has proved one of the most efficient
 guarantees of public confidence in the bank.

A Reserve Fund was to be established for the ..
 purpose of equalising future dividends and all bad and ..
 doubtful debts were to be charged upon it. Authority was
 given by Sections 5 and 6 of the Incorporating Act to issue
 bank notes for one pound or Five pounds sterling each or
 for any greater number of pounds than five. The notes ..
 were made payable in specie to bearer on demand at the ...
 place whence they were issued and also at Auckland the ..
 principal establishment of the bank. The total amount of
 these promissory notes payable on demand, that it was per-
 mitted to issue and have in circulation in the Colony at
 any one time, was limited to the amount of the coin bullion
 and public securities which should for the time being be
 held by the Company within the Colony. But lest the re-
 serve against liability on the bank notes in circulation

might be rendered inefficient for prompt redemption in time of sudden and extensive demand, it was provided that at least a third part thereof should be held in actual coin. The privilege of note issue was made to cease "in case of the suspension of specie payments on demand for the space of 60 days in succession or for any number of days at intervals which shall amount altogether to 60 .. days within any one year". Thus equipped with all the powers usually incident to banking the Bank of New Zealand started its career in 1861. Its head quarters were at Auckland and its first Board of Directors consisted of John Logen Campbell, Thomas Henderson, James O'Neill, Thomas Russell and James Williamson. A Branch was forthwith .. opened in London. Needless to say, all colonial banks require London establishments for the purpose of conducting their international exchanges. At the end of the first year on 31st March 1862 it found itself well rooted in the commercial life of the Colony. Its subscribed capital was £ 250,000 of which £108786 was paid up. It paid a dividend of 6% and shewed a net profit on the years transactions of £6097; £62914 of its notes were in circulation and it received £371894 of its customers' money in the shape of deposits. The total liabilities to the public were £555979. From the outset it received the Government account and made considerable profit out of the negotiation of State loans and the remittance of interest on the national debt. Year by year it rapidly increased its business, until in 1871 the capital was .. £600000, the reserve £150000, the net profit for the year £111875, the notes in circulation £286443, the total .. liabilities £3768131 and the dividend 15%. Indeed for 2½ years 1866e8, the rate of dividends was 17%. During this ten years, the growth of the Colony in population ..

and trade was steady. The population, exclusive of Maories, rose from 99021 to 266986. Exports increased from £1339241 to £5171104 and imports from £2493881 to £4078193. There was remarkable expansion in the production of wool and grain. The value of the export of the former rose threefold from over half a million ... pounds to over a million and a-half and the quantity .. sent abroad increased much more from 7855920 lbs to .. 37793734 lbs. The grain exported increased from £2518 to £164087. During this time the liabilities (chiefly deposits) of all the banks in New Zealand increased .. from £1097162 to £3988400 and the assets (chiefly advances and discounts) rose from £1235952 to £5871888. But this decade was preeminently the period of gold .. production.

THE GOLD DISCOVERIES:

The establishment of the Bank of New Zealand synchronised with the discovery of rich gold fields which for the next ten years formed the main source of the Colony's wealth. The first signs of gold were found in New Zealand in the Nelson Province by Captain Wakefield during his expedition from Nelson to Massacre Bay in 1842. No heed, however, was taken of Wakefield's report. Serious attention to the gold resources of the Colony began with the discovery in 1852 of the precious metal at Coromandel. In 1857 gold was found at Aorere in Nelson Province. These discoveries occasioned considerable excitement and more or less intermittent activity in mining. It was the discovery of Gabriel Read of unmistakable traces of abundant gold in a tributary of the Tuapeka River, Otago, which definitely turned the main stream of the people's energies for many years into the production of gold. This occurred in May 1861. Otago in an incredibly short time became the Mecca of Australasia, drawing immense numbers of fortune hunters to its gold fields. Speaking of the influx from Victoria Dr. Hochstetter says:¹ "Diggers bound for New Zealand thronged in the streets and on the quays of Melbourne: sailors deserted from their ships: and speculators of every kind saw a new field open in New Zealand. Victorian papers ~~from the middle~~ in September 1861, reported no less than 23 vessels all bound for Otago, among them the best Australian steamers and the most magnificent Liverpool and London Clippers. It was calculated that this fleet would bring about 12000 persons which number would .. exactly double the former population of Otago. Not only gold

1. "New Zealand" by Dr F. Von Hochstetter - Page 112

diggers embarked, but also other enterprising men of all kinds, who hoped to secure their share of gold indirectly. At the close of September, the number of immigrants daily arriving from Melbourne was estimated in Dunedin at 1000. A few^{years}/later a rush of a similar kind to Westland occurred.

The total value of the gold exported up to 1861 was £178,897. In the later year it suddenly sprang to £752667 and for the next ten years the export only twice fell below £2,000,000 and in 1871 was £2,787,520. During this period gold formed nearly 60% of the total exports. All business adapted itself to the demands of the diggings. It was a time of shifting populations and ephemeral industries. It was in the years following the gold rushes that the foundation of the Colony's enduring prosperity was laid in the development of the agricultural and pastoral interests: alluvial gold mining leaves few permanent gains. It creates a feverish excitement, a passion for speculation which militates against solid progress. The indispensable elements of lasting wealth, the cultivation of the soil, the establishment of many factories, and the building of cities had to be supplied after the "rushes" were over. Unfortunately the gold fever left a residuum of overhastiness to be rich which contributed its share of incitements to the reckless speculation of the 15 years succeeding 1871. The effect of the gold discoveries upon banking was very great. The chief business of the banks, during this period, consisted in buying gold from the miners and shipping it abroad. The profits were enormous. For 2½ years between 1865-8 the Bank of New Zealand paid a dividend at the rate of 17%. In 1866 the gold output was greater than it had ever been before and has ever been since. For many

years during the mining booms, first in Australia and then in New Zealand, the Bank of New South Wales paid dividends at the rate of 20%, at the same time carrying large sums to the Reserve Fund. In less than three years from 1860 the population of New Zealand had doubled itself. According to Mr. Preshaw in his book "Banking .. under Difficulties or Life in the Goldfields" it was in October 1861 began the great exodus of diggers from .. Australia to New Zealand. To meet the necessities of the time the practice of banking developed characteristics .. which would appear altogether strange to English bankers. The branch banks in the mining towns, if they had a fixed habitation at all, were generally located in a canvas tent or a hastily-erected wooden shanty. Oftentimes the bank manager would simply deposit his portable safe in a store and spend his time among the diggers, taking with him his scales for weighing gold and a bundle of bank notes with which to pay for it. The notes received by the miner were commonly returned again to the banker as a deposit and the banker would furnish there and then a deposit receipt. In the more outlying and inaccessible parts of the goldfields, storekeepers frequently acted as agents of the banks buying day by day the available gold which was periodically collected by bank clerks under escort. Mr. Preshaw in the book mentioned relates many of his own experiences as an official of the Bank of New South Wales and his experiences are typical. I will refer to a few. In the early sixties sensational accounts were current concerning rich fields on the West Coast of the South Island on the shores of the Grey River. Mr. Reuben Waite the only storekeeper in the district gave accounts of the wonderful "finds" which soon occasioned a "rush". Mr. Preshaw relates the following concerning his expedition

in the interests of his bank to the new goldfield discovered in October 1864 at Totara about forty miles south of the Grey River:

"10th November. - Made a start for the Totara on foot. My swag, containing a pair of blankets, gold scales &c., I put on Sweeney's waggon, a light American one, and the only one on the coast. Heavy walking along the beach. At Teremakau met Walmsley and Mr. Revell, the Government store-keeper, whom I shall particularly mention in another chapter. They too were on their way to the rush. Lunched at an eating-house, which had been erected since my last visit, kept by a Mrs. King (one of the first women on the West Coast). We slept in a Maori whare (building); were all very tired, and were soon in the arms of "Morpheus".

11th November. - Raining hard all day; could not stir out, so amused ourselves by playing euchre and whist. Up betimes next morning; crossed the river soon after breakfast, but found we could not get along, owing to the high tide; discovered an old whare, in which I lay down, but not to sleep - that was impossible - sandflies (a little black fly which bites hard and raises a lump like a mosquito) being here in thousands. Walmsley and Revell went on, .. driving a pack-horse before them, on which they had a tent, provisions, &c. When the tide was about half out I started in company with two or three others; we met seven or eight Maories on horseback returning from the Totara. They told us there were five hundred men on the ground, and that they were returning to the Greenstone; my own impression was to take up some of the ground left by the Pakeha (whitemen), and this eventually turned out to be the case. We jogged along till we came to the Arakura, where we camped. We were informed that to catch the low tide we must turn out early. This we did certainly. At 12.30 a.m. we were ..

roused, and shivering and shaking, up we got, thinking it a most unusual hour to start. We found when on the tramp that Morey (the driver of the waggon) had mistaken the time, and had thought it was 4.30. It turned out just as well that he did so, as by starting at that hour we had a splendid beach to walk over, the tide being well out. Arrived at the Okatika River at five o'clock. Here I found a calico store and another building close to it, built of brushwood, flax, &c., the only two buildings on the north side of the river; the store was kept by Messrs. Price and Hudson. Hudson attended to the store; Price did the packing. Their supplies were obtained from Reuben Waite, of the Grey. The other building was occupied by Ramsay and Party. The first ferry boat was formed from a large tree scooped out, all in one piece; 2s.6d. the charge for crossing the river. On the south side we found several tents and four stores. Finding the waggon was not going any further - so many returning from the Totara, and the day turning out wet - we determined to return to the Grey. I camped at the Arahura in company with Morey and a man named Murrell; had a small tarpaulin, which we rigged above us, with boughs at the back and sides; made a large fire, boiled the billy, and had tea. The rain came down in torrents and put out the fire. Our blankets were soon wet through. Murrell and I were seated on a box containing my gold scales. There we sat shivering, "not a drop of the cratur", and in this plight did we remain till one a.m., by which time the rain ceased. Murrell was between Morey and myself, and had decidedly the best of it, for he would snooze away leaning his head first on my shoulder, then on Morey's. A fresh fire was lighted, and the billy boiled, and some coffeemade. Bush rats were about us in hundreds; the ground all round us some inches

deep in water. This was without exception the most .. miserable night I ever spent. What made it so bad was being compelled to sit in one position from seven in the evening till daylight in the morning. As soon ^{as} daylight appeared we were up, and spread out our blankets to dry. Discovered a whare within fifty yards of our camping-place, which would have afforded us good shelter."

It was a rough life for the bank officials, spent amid much danger, not only from desperate robbers but from the wildness of an unroaded heavily-wooded, and unbridged country. On one occasion Mr. Walmsley representative of the Bank of New Zealand and Mr. Preshaw, while journeying to the Greenstone got into treacherous waters in fording the Teremakau. Before reaching the opposite shore one of them was thrown from his horse into the .. river and emerged wet through with a wet revolver and 2000 bank notes, which he carried in the breast of his shirt, saturated. The notes were hung round the first fire that could be obtained and dried like washed clothes. The following is another experience illustrative of the daily happenings of a banker's life.

"At this time I had my safe, (a little thing which two men could carry) in M'G ---'s store, under his bed, which was immediately behind the bar; the tent was a calico one. I had my safe here for two reasons; in the first place, Teremakau was in a central position as regards the then existing diggings, viz., Greenstone, Totara, and Six Mile; and again the police tent occupied by Sergeant Broham and Constable Cooper was erected here, O'Donnell being at the Grey. As soon as Walmsley rode up and said he was going to the Greenstone, I saddled Nobby, took my saddle-bags into the bedroom, unlocked the safe, took out what notes and coins I wanted, strapped up the saddle-bags

put them on the pony, and away. It so happened that I was particularly busy on this trip, both on the Saturday and Sunday; the weather most miserable, raining the whole time. As usual I took up quarters at Tracy's. On Monday we rode to the Hohuna and found such a fresh in the river that we could not proceed on our journey. We stayed at Everest's. About an hour after I went to bed, I put my hand in my breeches pocket (for let it be known I always slept with my breeches on, and oftentimes in my boots) and missed the key of my safe. I felt first in one pocket then in another. I lay for some time trying to remember when I had it last. For the life of me I could not. I remembered going to the safe and locking it up, but nothing more. I got up, struck a light, searched the saddle-bags but no trace of the key. Next morning I gave a man £1 to go to the Greenstone to see if I had dropped it at .. Tracy's. He returned in the afternoon without it. I was in a nice fix; my safe at Teremakau, myself a prisoner at Hohuna, where I was likely to be for days, and my key lost. In this state of suspense I remained until Wednesday evening, when, by good luck, a Maori, in a canoe, called in on his way to Teremakau. The river was anything but safe. However, I was in such a state of mind that I would not lose the chance of getting down, so left Nobby to be sent after me. Off we went. I did not relish the trip, but I sat down in the bottom of the canoe and remained perfectly steady, and trusted entirely to my Maori friend. I did not even ask to get out at the "Devil's Elbow", and in less than half-an-hour I was safely landed at Teremakau. Paid the Maori his fare - £1 - and marched up to the store. Here I saw McG ---- and after a while said, "By the way, did I leave a key here?" "Yes," said he, Dan found it on the table immediately after you left on Friday, he did not

know whose it was and hung it up inside" (pointing to the bedroom). I went in, and, sure enough, there was the missing key. I opened the safe, which, as I said before, was a small one, and in which I had left several hundred ounces of gold, and £2000 in notes. The treasure I had packed away at the back, and the few books I had in use, piled up in front. On opening it everything appeared to be as I had left it, so I locked up, determining to go down and balance up after tea. This I attempted to do, but a lot of drunken men coming in I had to give it up. Next morning I went down to the store, wrote up the books, counted the cash, and balanced. I was truly delighted, and went home to Broham in great glee. "

On occasions bank officials have had to walk long distances over rough country carrying as much as 300 ozs of gold on their own backs. Usually they obtained an escort but this was not always possible.

Several times large quantities of gold were taken by robbers. On February 5, 1865 the officer of the Bank of New Zealand lost gold to the value of £920 at the Waimea which was stolen out of the store where he had temporarily left his valise containing the money. The following incident related by Mr. Preshaw illustrates the risks of the bankers in those days of the gold-diggings: "On the 3rd September in the same year (1865) Walmsley was stuck-up between Notown and the Twelve Mile by five armed men masked, and robbed of 824 ozs of gold and £1000 in .. notes; total value £4000. He left Notown early in the day, accompanied by William O'Brien, a packer; the gold being divided, O'Brien having 800 ozs, and Walmsley 824 ozs. The road they travelled was down the bed of a creek; thick bush on each side. When about half-way he was suddenly

surrounded by the robbers, and pulled off his horse before he could even make an attempt to draw his revolver. O'Brien, who was some yards ahead, and hidden from his view by the roundings of the creek, had a gun suddenly presented at his head by one of the gang, who, in presenting it, stumbled and fell. O'Brien put spurs into his horse and galloped away, and so saved 800 ozs of gold. Walmsley saw nothing of this, and rode into the midst of them. They surrounded him, and had him off his horse in a twinkling. First of all they took away his revolver; then possessed themselves of his treasure. Walmsley turned round to have a look at them to see how they were dressed, so that he could recognise them again, but two of the number drew revolvers, which they placed at his head, and swore that if he moved one inch they .. would blow his brains out. "

The larger towns were able to participate in the excitement occasioned by the transport of gold. Once or twice in each month, for instance, the streets of Dunedin were made to ring with the galloping of .. horses conveying gold from the gold fields to the banks. The first escort of gold into Dunedin occurred in July 12, 1861 when 500 ozs were brought in. The spectacle of a large body of mounted men well-armed was to be seen twice a month bringing ever larger quantities of gold from the Otago gold fields. On November 14 of the same year, the escort brought into Dunedin no less than .. 35,100 ozs and from that time for many years there were weekly deliveries.

To return again to the West Coast fields the Bank of New Zealand in 1865 had to endure for a short time that most trying of all experiences to a bank - a run. Here is the account of it given by Mr. Preshaw.

"The following paragraph appeared in a West Coast paper of July, 1865:-

"We heard that no slight excitement was caused at Rosstown by the stirring commercial news from England, and especially by the report that the Commercial Bank in Dunedin had suspended payment, and that a run had been made upon the Bank of New Zealand. The latter item .. created a panic, which occasioned quite a rush upon the branch of that bank at Rosstown. The establishment was besieged by depositors, who clamorously demanded cash, but in their hurry forgot to discriminate between the relative value of gold and paper, very readily accepting notes in lieu of gold. So heavy were the demands that the notes of the establishment ran out, and what might have happened no one can tell had not the New South Wales and Union Banks come to the rescue by sending in a timely supply of their paper. Fortunately this was amply sufficient to meet all demands, and the day closed peaceably. By the next morning the panic had ceased, and in due time the bank again received its own; but we should imagine that the parties interested must have felt quite chapfallen at their ludicrous mistake."

"About the same time, I received intimation from our agent at Okarito that a rush on the Bank of New Zealand had taken place in that township. The regular coasting Steamer, the Bruce, was wrecked on the 8th July, and from that time the postal communication with Hokitika was very irregular; in fact the people of Okarito were entirely dependent on private parties travelling for their correspondence, and on one of these gentlemen arriving and bringing with him a copy of one of the Hokitika papers they .. were made acquainted with part of the first telegram of English news. The newspaper was handed to the editor of

the "Westland Observer", who, about eleven o'clock on the 23rd, issued an "Extraordinary". In this, amongst other failures in London, the name of the Oriental Bank appeared and in the provincial part of the telegram it was reported that in Dunedin there was a heavy run on the Bank of Otago, the Bank of New Zealand, and the Union Bank. Although the "Extraordinary" was freely issued in the town of Okarito, there was not the slightest alarm felt by the business community as to the stability of the Bank of New Zealand, and until 2.30 p.m. business went on as usual. About that time a number of miners rushed into the Bank of New Zealand from the Five Mile, and demanded gold for their deposit receipts. The agent was at his wits end to know how to act. Fortunately for him Yates put in an appearance, and learning the cause of the excitement, he told the diggers that he did not believe in the truth of the report; had it been true he would have had some special communication from Hokitika. Several miners asked him if he would take the Bank of New Zealand notes; he replied in the affirmative. This tended to allay the excitement. The next mail brought the news of the stoppage of the New Zealand Banking Corporation. The similarity of the name to that of the Bank of New Zealand had caused the panic."

Bankers on the gold fields required to be expert in discriminating the different qualities of gold and in cleaning it. Most of the gold was alluvial and was not all of the same value. For instance, for Waimea gold not more than £3.17. 0 an ounce was paid. The cleaning process consisted in placing the gold in a scoop, and applying a powerful magnet to agitate it and stir it round whereby the iron and impurities were removed.

CHAPTER VIII.

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YEARS OF EXPANDING CREDIT.

The most difficult period in the history of banking in New Zealand begins with the year 1870 and ends in the banking troubles 1893 - 6. During the greater part of this time the banks apparently enjoyed a large measure of prosperity. The Bank of New Zealand paid dividends at the rate of 15% per annum .. from 1870 to 1887 with the exception of 3 years when 12½% was paid. There was a remarkable expansion of business. The total average deposits of all the banks in New Zealand rose from £3,127,769 in 1870 to £10,579,711 in 1886 and the assets, chiefly advances and discounts, rose from £6,315,354 to £19,041,827. The total New Zealand assets of the banks never reached the figure of £19,000,000 again until the year 1903 and yet this phenomenal progress culminated in disaster. Only the assistance of the State saved the Bank of New Zealand in 1894 from failure: the Colonial Bank shortly afterwards went into liquidation and there was not a bank but found itself pushed to the extremity of anxiety. The causes of the time of stringency are discoverable in the years of plenty. The .. cataclysm of the "nineties" had its antecedents in the "seventies" and "eighties". To discover these causes and to trace their .. cooperation is a task encumbered with much difficulty but promising important conclusions concerning Colonial Banking. The most significant feature of banking in New Zealand during the period of expansion was the great increase in the accommodation offered to the public in the shape of discounts and advances.

The following table shews the extent of the increase:-

BANKS - 1870 to 1896:

TABLE showing the Total Average Amount and Rate per head of population of Advances, Deposits and Discounts of the Banks of New Zealand in respect of Transactions within the Colony, the Ratio of Advances to Deposits, and the Assets and Liabilities, for each of the years 1870 to 1896 inclusive.

Year	ADVANCES:		DEPOSITS:		Ratio of Advances to Deposits	DISCOUNTS:		Total Assets	Total Liabilities
	Amounts	Rate per head of mean Population	Amounts	Rate per head of Mean Population		Amounts	Rate per head of Mean Population		
	£	£	£	£	Per cent	£	£	£	£
1870	4,547,217	18.73	3,127,769	12.88	145.38	2,236,672	9.21	6,315,354	3,819,670
1871	4,041,019	15.68	3,334,672	12.94	121.18	1,879,060	7.29	5,871,888	3,988,400
1872	3,530,071	12.92	3,919,838	14.34	90.06	1,585,358	5.80	5,429,747	4,628,819
1873	4,925,037	17.12	4,713,806	16.38	104.48	2,116,654	7.36	7,267,720	5,538,030
1874	7,758,604	24.33	5,564,434	17.45	139.43	3,739,561	11.73	9,954,216	6,490,504
1875	8,766,831	24.43	5,967,205	16.63	146.92	4,382,582	12.21	10,987,178	6,987,318
1876	9,633,659	24.86	6,238,471	16.10	154.42	4,744,845	12.25	11,776,070	7,221,399
1877	10,588,510	26.22	7,185,106	17.79	147.37	4,911,715	12.16	12,992,104	8,152,230
1878	12,839,276	30.53	8,960,369	21.31	143.29	5,980,798	14.22	15,393,630	10,031,009
1879	13,413,070	29.93	8,021,073	17.90	167.22	6,061,959	13.53	16,054,295	9,057,463
1880	11,300,404	23.83	8,538,935	18.00	132.34	4,627,098	9.76	14,220,275	9,550,177
1881	11,968,669	24.28	9,069,377	18.40	131.97	4,218,559	8.56	14,863,645	10,083,188
1882	14,391,720	28.26	8,945,346	17.56	160.89	4,520,316	8.88	17,162,234	10,015,273
1883	15,011,251	28.36	8,659,477	16.36	173.35	4,673,895	8.83	17,794,761	9,706,700
1884	15,471,128	28.00	9,643,214	17.45	160.44	4,365,216	7.90	18,442,139	10,691,599
1885	15,731,792	27.61	10,083,296	17.70	156.02	4,419,107	7.76	18,811,567	11,130,244
1886	15,853,420	27.23	10,579,711	18.17	149.85	4,406,395	7.57	19,041,827	11,603,194
1887	15,406,396	25.83	11,031,614	18.50	139.66	3,604,937	6.04	18,799,847	11,995,495
1888	15,320,387	25.31	11,155,778	18.43	137.24	3,171,896	5.24	18,799,444	12,108,353
1889	14,375,907	23.50	11,528,424	18.85	124.72	2,850,944	4.66	17,652,915	12,486,717
1890	14,096,446	22.71	12,368,610	19.92	113.97	2,524,573	4.07	17,735,259	13,356,598
1891	11,549,145	18.34	12,796,098	20.32	90.26	2,314,325	3.68	16,814,518	13,820,598
1892	12,228,425	19.04	13,587,062	21.16	90.00	2,361,813	3.68	17,558,168	14,623,335
1893	12,797,563	19.35	14,433,777	21.82	88.66	2,307,649	3.49	18,255,534	15,489,633
1894	12,031,537	17.71	13,927,217	20.51	86.39	2,052,246	3.02	17,746,421	14,930,791
ec. 1895	12,052,450	17.41	13,544,415	19.56	88.98	1,758,498	2.54	18,159,781	14,491,627
uar 1896	11,354,505	16.06	14,490,827	20.50	78.35	1,756,791	2.49	16,900,199	15,520,431

The deposits for the same period while shewing a steady increase disclose a rapidly decreasing proportion to the advances. The banks greatly extended their credit beyond ... their immediately available resources. Their management betrayed in many cases utter recklessness. The commonly acknowledged checks were disregarded. The banks became largely Land Mortgage Companies, advancing with the utmost liberality on fixed securities as though the need of liquid assets in banking .. had passed away.

The following were the main causes contributing to this imprudence:-

1. The Public Works and Immigration Policy inaugurated by .. Sir Julius Vogel
2. The pressure unceasingly exerted on the banks by the public to depart from legitimate banking in order to secure more ... liberal accommodation.
3. The competition of the numerous Loan Companies.

THE PUBLIC WORKS POLICY:

In 1870 there began a policy of rapid development by means of extensive borrowing from Great Britain. Settlement had been impeded by the absence of facilities of communication. Vast fertile districts were roadless. There were practically no railways. The total length of electric telegraph line did not stretch 2,000 miles. The population after 30 years of colonising effort was under a quarter of a million of Europeans; the .. country was in area larger than Great Britain; it was immensely rich in natural resources. This latent wealth was awaiting .. development.

Sir Julius Vogel's policy produced effects extensive and deep. Measured by the usual standards of material .. progress the Colony leaped ahead. Statistics of population, trade

and wealth swelled into unrecognisable proportions. In 10 years the European population doubled itself rising from 248,400 to .. 484,864. During the same time the land under cultivation increased fourfold and in 1890 there were eight acres cultivated for every one in 1870, mounting in 20 years from 1,140,279 acres to .. 8,462,495. The contrast with the "digging" days was most ... marked. In 1864 only 382,655 acres were under tillage; in 1874 the acres were 1,943,653 and in 1884, 6,550,399. The number of .. sheep rose in 20 years from 900,000 to 18,000,000. The quantity of wool exported increased from 37,000,000 pounds to 102,000,000 pounds. During the 10 years succeeding 1873 when the State borrowing policy was in full operation, the imports exhibited amazing expansions. They totalled for the decade £77,362,185, while the total exports were £58,496,823 being approximately £19,000,000 less. This excess of imports indicates that more capital was being drawn from England than was being added to the public debt. Municipal and other local public bodies borrowed largely as well as the Government, and Loan Companies too numerous to mention raised .. money in Great Britain to lend in New Zealand. The Government, Municipalities, Companies and private individuals borrowed to the top of their bent. A mighty transformation was wrought in the .. Colony. Everybody seemed clad in prosperity and generally things "boomed".

Sir Julius Vogel began his agitation for a vigorous development policy in 1868 by moving in the House of Representatives that a measure should be introduced promoting immigration. After a long and instructive debate the motion was carried. There .. was pretty general agreement that the Colony was languishing from an insufficient number of people who were prepared to settle permanently in the Country. The wonderful gold discoveries had .. attracted a migratory body of men who could not be depended upon to develop the lasting resources of the land. Indeed the "diggings"

generated a feeling of unrest which hindered cultivation and the establishment of those industries which are based upon steady and constant labour.

As the earliest years of colonisation were afflicted by the presence of many men who had come to the Colony only in the expectation of making a quick fortune without toil, so between 1860 and 1870 the land was flooded with diggers who came only to exploit its goldfields. The country ran the risk of being depopulated when the gold was exhausted unless something could be done to open new avenues of wealth that would arrest the anticipated exodus or attract new settlers. The Colony was approaching a critical condition. The collapse of the "diggings", unaccompanied by the emergence of other industries, would have occasioned an almost unendurable depression and a serious embarrassment to ^{the} Government which was in need of all the revenue procurable. There was no gainsaying the urgency of an immigration policy which should draw the class of settler who could be permanently held.

Sir Julius was not long in perceiving that hand in hand with measures to encourage immigration must go measures to afford means for the development of the country's natural resources. Accordingly, on 8th July 1870, he moved in Parliament for the appointment of a select Committee to suggest steps for the development of the producing and manufacturing resources of the Colony.

The motion was agreed to and before the end of that month a message was received from the Governor recommending the House of Representatives to make provision (inter alia) for the construction of roads and the introduction and settlement of immigrants. Later in the same year was passed the Immigration and Public Works Act providing assisted passages to immigrants and authorising a loan of £10,000,000 for the construction of main trunk railways, roads and other public works of importance. The expenditure was to be

spread over a period of 10 years. Not unexpectedly the limits assigned to expenditure were exceeded.

A borrowing policy once under weigh gathers momentum. Between 1870 and 1880 the public debt was increase d by £20,343,820.

PUBLIC PRESSURE:

From the very beginning of settlement the colonists clamored for a more liberal supply of capital from the banks than the latter were disposed to give. The complaint was incessant that the banks were too niggardly in their advances - furnishing too little money, and that little on terms too hard. It is not difficult to appreciate this unappeasable appetite. A newly settled country has relative to population far more need of capital than a well-developed one. Forests have to be cleared, ... fens drained, communications established, before industry can begin to be remunerative. The initial subjugation of the ruggedness of nature necessitates the maintenance of the labour employed on the task from sources other than its own product. Inevitably there must be a large dependence upon imports. But this ... special urgency of need is invariably accompanied with a special ... scarcity of means. Generally speaking emigrants from the other lands are poor. Their poverty is frequently the incentive to emigration. The early settlers of New Zealand were commonly ... enterprising men and women with slender material resources. Had they been abundantly endowed with the riches of the world they ... would not have sought a fresh field for their activity. Pressed by the settled and rigorous conditions of the old country they ... turned to the country where everything was plastic and land was ... cheap and plentiful. There were among them, of course, mere speculators but the majority were men equipped with all the physical, mental and moral qualities for productive industry. The colony supplied them in generous measure with all the resources of ...

nature by which their labour might be made very fruitful. But capital, the third factor of production, was not one of their possessions, and New Zealand did not afford it. What they wanted was not so much the actual coin but a "credit" in England upon which they could draw to obtain commodities, tools and machinery. Without this in some form or another they were balked in their efforts to appropriate and exploit the rich resources of the country. In their great need they turned to the banks. At the outset, as I have shewn, complaint of niggardliness was made against the Union Bank and the New Zealand Banking Company. The former, it is true, began with a fairly generous response to the demand, but by no means could it satisfy the extravagant claims of the colonists. The financial troubles of the Kororareka Bank and the policy of contraction pursued by the Union Bank when overtaken by the monetary crisis in Australia, intensified the complaint of settlers. The following appeared in the "New Zealand Gazette" Wellington and was published in the "New Zealand Journal" of 3rd July 1841 :-

"Meeting took place at Barrett's Hotel in conformity .. with last week's advertisement, to consider the propriety of obtaining for the public greater banking facilities than are now enjoyed. Mr. Hanson was called to the chair when the prospectus of the Port Nicholson Bank, which was issued some months since, and the proceedings connected therewith, were read by Mr. Watt. It .. appeared that about one thousand shares had been subscribed but .. no active steps had been taken to call the Bank into existence. The meeting concluded by adopting a resolution, submitted by Mr. .. Hanson, and seconded by Mr. Moreing, the purport of which was that a committee are to apply to the Manager of the Union Bank to be .. governed in accordance with the answer received and the reasonable prospect of being enabled to establish a local bank should that .. answer make it evident that another banking institution is required

1. I have been unable to get access to copies of this paper for 1841.

here, for the ordinary purposes of discount and deposit.

We are unable to state whether the Union Bank is able to give the requisite amount of mercantile facilities, but we have never heard of a single occasion upon which aid has been refused, provided the security offered was of the character and to the extent deemed necessary for the safe conduct of the bank. The point is easily solved, and turns upon whether the branch of the Union Bank has ever refused discounts in consequence of not having the means with which to grant them, and if such has been necessary, whether on application to the Inspector at Sydney, an augmentation of the proportion of the bank's funds hitherto devoted to Port Nicholson would be made sufficient to meet the demands which are supposed to exceed the present capital of this branch of the bank. These are the questions to be submitted to the Manager and which we believe he will not hesitate to answer, as soon as the application has been made in a formal manner.

We feel, however, it will be found our chief want is not capital to be loaned on ordinary terms, but for a much longer period than that upon which a commercial Institution issuing .. notes which it is bound to redeem on demand, can with safety .. grant to any useful extent. We really require an Institution like one which has been lately established in London, with a capital of One Million of pounds by our own friends, for the benefit of Australia. It has already introduced to Sydney two hundred and seventy thousand pounds and we understand loans its capital on landed and other fixed or stationary security for periodsex- tending to 5 years, Such an Institution or the branch of the one now established, is our most urgent want, and we suspect .. would far surpass, in the permanent prosperity it would create, a bank which merely aided that part of our industry devoted to commercial purposes. Of course, there is no objection to the

latter but we feel convinced, if unattended with the introduction of the former, which would lead to a greatly extended field for the application of ordinary discount and deposit transactions, disappointment in a high degree would ensue which is our reason for pressing this important subject, at the present moment, upon the attention of our fellow colonists,

We are happy to find, that all the branches of the Union Bank of Australia have the agencies in the colonies of this new Loan and Mortgage Institution, which is a fortunate circumstance, as it enables the colonists at once to place themselves in communication with that Institution.

We would, therefore, suggest the propriety of handing to the Manager of the Branch of the Union Bank here a requisition to use his best interest to induce the Inspector, Mr. Boyd who has arrived at Sydney, forthwith to give us the benefit of a portion of the capital at his disposal. "

It will be noticed the Gazette recognised that much of the importunity to which the banks were subject was not legitimate. They were ~~not~~ being called upon to render assistance of a kind which did not fall within their proper functions. Above everything else the settlers wanted capital to clear their holdings and bring them under cultivation. Not banks but loan companies were the proper institutions for this. But unceasing applications were made to the banks for just such accommodation.

In the discussion excited by the proposal to close the Colonial Bank of Issue, the Union Bank was condemned, by almost every member who spoke, for the niggardliness of its aid to agriculture. Mr. Bell said that he knew of one farmer of unimpeachable financial standing who, being refused a loan, had recourse to a commercial house which got a bill for the amount required discounted by the Bank, and then charged a high commission to the farmer. It must not be imagined however, that

even merchants were satisfied by the reception of their paper. They too grumbled at the conservative policy of the Bank as related to themselves. But the chief ground of complaint was the treatment of the agricultural interest. Indeed the common subject of the talk of the settlements was the way in which the banks were retarding development. The matter was made the subject of special consideration by the Wellington Chamber of Commerce in 1858. In its annual report it refers to the "sudden restrictions placed on the enterprise of the colonists by the banks." The Colony was just then passing through troublous times owing to the Maori unrest, But as a sudden restriction was only an intensification of a restrictive policy which had been long followed the Chamber resolved to set up a special committee to enquire into the commercial condition of New Zealand and report on its prospects. This report was appended to the Annual Report of 1859. Its endeavour is to shew that the circumstances and prospects of the Colony justify the utmost confidence of the banks and that the reluctance to trust in its future which apparently governs their counsels, is quite unwarranted. The Report presents a mass of statistics from which an estimate is made of the assets and liabilities of the Wellington Province. It assesses the material property of all kinds at £2,403,849 and the circulating medium at £145,000 and to arrive at the aggregate assets adds these sums, making a total of £2,548,849. The liabilities to the banks on advances and discounts are put down at £164,228 leaving an amount of £2,384,621. This, it was contended, would provide ample security for more generous banking accommodation. The Report then proceeds to frame a balance-sheet which discloses a net indebtedness of the colonists to the banks of very humble proportions. The deposits were £103,426 and the notes in circulation £24,501 making a total liability of the banks to the community of £127,927.

On the other hand the debts due to the banks were £164,228 leaving an indebtedness of the public of only £36,301.

This was the amount of capital that the banks had invested in the work of development in the Colony. Summing the matter up the Report says that "for every pound for which it was indebted there existed a real and improving security of 66 times its amount". While the very object the Chamber of Commerce had before it in setting up the special committee was to marshal evidence to justify the general condemnation of the restricted policy of the banks, one result of the investigation was to make the committee sensible that the banks were really being called upon to undertake business which was beyond the limits of their legitimate operations. After emphasising the starvation of many enterprises from lack of .. capital the Report proceeds :-

"This, therefore, leads to the consideration as to the way in which the difficulty for this and other enterprises (want of capital) is to be overcome and by what means the resources of the country can be best developed. As it would not be in accordance with the ordinary rules of banking establishments to afford the requisite assistance, it has appeared to your committee that the object could be gained through the formation of a loan company in England on the principle of the Scottish Australian Investment Company, such a company could legitimately make advances and assist all projects which might be considered as having a tendency to increase the exports and commerce of the place generally and would at the same time under judicious management, yield a handsome return to the shareholders."

Despite the occasional acknowledgment that the character of much of the demand upon the banks was such as to justify refusal, the demand for advances on the security of

fixed property grew in intensity. The resistance of the banks was gradually broken down. The inauguration of the Public Works policy, the stimulus to prices thereby given, and the high rate of interest which producers were consequently prepared to pay, opened to the banks a source of profit which they were loath to neglect. Before long the bankers themselves were upholding the very policy which British tradition instructed them to avoid. It must not be forgotten that half of the banks in operation in New Zealand during this period of expansion had .. their chief establishments in Australia. There was the seat of banking government. There were laid down the principles upon which the practice of banking was conducted in this Colony. The conditions in Australia were similar to those in New Zealand except that the latter was a stage behind Victoria and New South Wales in development. Tentatively the banks in these older .. Colonies had relaxed the strictness of English banking without the appearance of ill consequences of a grave character and certainly with enormous profit. Consequently, when the settlement of Queensland and South Australia began to make steady progress in the early seventies, the restraints of prudence were largely .. thrown off and for some years the quarterly returns shew a large proportion of advances as compared with deposits. These methods appeared to the English banking authorities and economic .. journals as highly reprehensible. Australian banking was subjected to the severest strictures. Such magazines as "The Economist" again and again returned to the attack. Australia was put upon its defence and found zealous championship in the chief organ of Colonial banking, the Australasian Insurance and Banking Record. The following from the editorial columns of the December issue of 1878 is typical. It is highly significant as making no attempt to disguise the complete repudiation of the orthodox principles of banking.

The perpetual denunciations which are levelled by the English financial organs against the slightest departure by the banks from the "good old principles of strictly legitimate banking", cause the Managers to approach anything in the shape of a direct advance with a certain reluctance and make them regard the taking of a mortgage as a deed to be ashamed of. But the "strictly legitimate" bills are not to be obtained in quantity sufficient for the enormous banking power of England to work upon, hence the imitation article has to be used, and we have periodical and not infrequent collapses after the Collie pattern. And why, it will be asked, should not these difficulties apply with even greater force to the banks in these .. colonies, where, in proportion to the population, they are far more numerous than in England? The reason is not far to seek. If the Australian banks strictly confined themselves to the discounting of trade bills representing actual transactions between the importer or producer and the distributor, one bank in each colony would be ample for the purpose.

But happily an outlet has been found for large advances with good security which has obviated the necessity for recourse to bogus bills and uncovered advances to speculative ship-owners, to dabblers in American Railway stocks or in prairie allotments. In the frequency with which securities are .. taken for all direct advances lies the marked difference between British and Australian banking. That a bank of issue should advance any large proportion of money required to purchase land, when it is bought for resale simply in the expectation of increased value, would be travelling outside its province, and invading the business of the land and mortgage companies. But in taking a lien over the deeds of a farm, to be redeemed out of growing crop - in anticipating the proceeds of a half-grown clip of wool, - in lending on mortgage of stock, to be paid within a defined period by sales, - in helping the customer of good means and ample revenue to extend his possessions when he shows his liability to utilise them advantageously - and in a dozen ways that would elicit a solemn shake of the head in Threadneedle .. Street, the Australian banks are able to make substantial profits, combined with a larger measure of safety than can be always predicted from "two names to a bill."

Indeed, it may be safely said, that notwithstanding the large infusion of British influence exercised by London .. boards of direction, and by the occasional expatriation of inspectors imbued with London ideas, the policy of Australian banking has gradually adapted itself to the requirements of a country differing widely in all essentials from the mother-land. It may have gone at times too far in its divergence from experienced customs, notably in helping to large acquisitions of land, the cost of which has been out of all proportion to the annual income of the assisted buyer, but even in these cases when such advances bear but a small relation to the general business, the question is only one of inconvenience not danger. The favourable influences which have enabled the Australian banks to assist so amply in the development of the country may be seen in its progressive growth in wealth, as evidenced by the bank deposits of the last twenty years; in the constantly augmenting value of its landed property, and the increase of its flocks and herds; while the universality of the practice of such long dated advances is justified by the large proportions which the long term deposits bear to the general liabilities. Finally, in Australia, at least, the banks are free from those sudden and exhaustive drains of bullion that Continental troubles often inflict on the centre of British finance. The outflow of the precious metal is certainly continuous hence, but then it is not one of the staple

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exports of the country. In the worst of panics the banks would but have to divert the stream into the mint instead of the mail steamer, and though the British creditor might find his remittances temporarily diminished - at any rate the Australian depositor would have no ground for any uneasiness."

Adopting this practice in Australia, it was only to be expected it would be followed in New Zealand where, indeed, the State borrowing policy furnished conditions so favorable. Reposing its trust in the latent wealth of the .. Colony, the Government was borrowing beyond all available means of payment and the banks saw in its conduct an example for lending liberally and trusting to future development for repayment.

LOAN COMPANIES

A third important factor contributing to the extravagant creation of credit was the extensive operations of the Loan Companies. The banks regarded these Companies as their keenest competitors, although the sphere of each should have been different. Companies of this kind rendered an incalculable service to the Colony. They were commonly .. floated in the United Kingdom with the object of raising funds there for employment in the Colony. Enterprising financiers were attracted by the profitable field of investment offered by the Colony, where the rate of interest was so much higher than in the Old Country.

They were organisations for the collection of capital where it was abundant and for the distribution of it where it was scarce. I have shewn the urgency of the .. appeal of the Colonists made in earlier years for the establishment of them. The following from Judge Chapman's "New Zealand Portfolio" (1843) well expresses the need:-

"It may be thought that the formation of a Bank .. would afford the readiest means of employing English capital

with every prospect of large advantage without the trouble of superintendence and with only moderate risk. I will not for a moment deny that the New Zealand settlements offer extraordinary advantages for the employment of banking capital. The Union Bank of Australia has a branch at Wellington, and I believe the directors intend to open one at Nelson. The Wellington branch has been profitable, and has been conducted without loss but the amount of capital employed is utterly inadequate to the large and growing commerce of the commercial metropolis of New Zealand which still presents an open field for the advantageous employment of banking capital, well worthy the attention of the English capitalist. But a Bank does not perform the functions which a Loan Company fulfils. A Loan Company is to the land owner and agriculturist what a Bank is to the Merchant, and however beneficial to the latter class a Bank may be it does not meet the wants of the agricultural .. body. In trade the credit given is short. The Retail .. dealer requires of the Merchant only such a length of credit as will enable him to give a reasonable credit to his customers. He calculates the time which is necessary for this purpose and he gives a written engagement to pay at the end of the period. The time which experience shows to be necessary soon grows into a custom and in the commercial language of continental Europe the period at which a Bill is usually drawn is called usance, a word denoting that which is customary.

When written acknowledgments are called into existence as they are at the foundation of a Colony of English lenders, the Merchant finds it convenient to anticipate the day of payment by borrowing the money which these instruments represent. To enable him to do this a Bank is an efficient instrument.

But the very essence of a sound system of banking is to lend money for periods as short as possible. A Bank which discounts two months' Bills appears to give twice as much accommodation as one which takes 4 months paper and to lend money for long periods on the security of land or indeed on any security not negotiable would be an unwise departure from the ordinary .. business of Banking.

To give full effect to the productive resources of New Zealand on the one hand and to enable the English capitalists to reap all the benefit which the abundant resources of New Zealand hold out on the other, an institution is necessary which shall .. grant Loans for longer periods - for years in short, where a Bank if prudently constructed, can only afford them for months."1.

With the adoption of Sir Julius Vogel's policy, loan companies multiplied exceedingly. In 1881 the following companies were doing business in New Zealand:-

	Capital.	
	Subscribed.	Paid-up.
The Australian and N.Z. Mortgage Co.	1,750,000	350,000
The Colonial Investment & Agency Co. of N.Z.	305,000	61,000
The National Mortgage & Agency Co. N.Z.	545,000	54,500
The Northern Investment Co. of N.Z.	250,000	25,000
The N.Z. Loan & Mercantile Agency	3,000,000	300,000
The N.Z. Trust & Loan Coy.	1,200,000	600,000
The Otago & Southland Investment Co.	500,000	100,000
The Scottish & N.Z. Investment Co.	500,000	100,000
Total	8,050,000	1590,500

Delegated?

These Companies employed their capital on mortgage of real estate and occasionally in the purchase of large blocks of land to be cut up in lots suitable to settlers.

This was precisely the kind of assistance that was most needed in the Colony. The cry that over-sounded every other was "capital for development." The only security that could be offered in most cases was land whose resources were to be developed by the capital. Money lenders were wanted who had faith in the country, who were prepared to sink their capital in it and wait until its productiveness allowed of repayment. This was just the kind of investment that recognised banking .. forbade any meddling with on the part of banks. But to adopt this counsel of perfection in New Zealand meant not only a shutting off of an apparently profitable avenue for the employment of the banks' funds but also a serious contraction of the business which the banks were doing prior to the entrance of many of the Mortgage Companies. The banks had got into the habit of taking land as collateral security to bills. The bills without it were often rather slender cover. The fact was that the commercial business of the Colony afforded a most inadequate .. field for the employment of all the resources of the established banks. Before the activity of the loan companies became pronounced the banks could reject such applications for advances on land as it deemed imprudent without any results to its general business. But when the loan companies were offering accommodation freely, to turn down demands was to run the risk of so ... offending the public as to occasion the transfer of much business from the banks to the companies.

This danger was accentuated by the fact that the .. loan companies soon began to receive and pay interest on deposits. Thus they threatened to take away that important and lucrative function of banking which consists in acting as intermediary .. between the lenders and borrowers of capital. The outcome of

the competition was that the banks succumbed to the temptation to enlarge their profits by participation in illegitimate .. business. Many, indeed, entered into arrangements with loan companies by which the latter were assisted with money by the banks and acted to a large extent as their agents.

Upon the banks then were exerted powerful influences to deflect them from the path of sound banking. An extravagant State borrowing policy encouraged the dependence upon credit. Before long everybody was pledging his assets to the utmost to extend his credit and thereby take the fullest advantage of the prosperity which seemed to mark every enterprise. This influence was seconded by the constant pressure of the public for accommodation on the security of real estate and by the dreaded competition of the loan companies.

The combined pressure of these factors might not have availed to push the banks astray but for the channel of opportunity afforded by the system of granting overdrafts copied from the cash credit principle of Scotland. Following the more conservative practice of England the banks had not in the early days of settlement exhibited any willingness to adopt the Scotch system. That system, however, receiving the sanction of high authority and having wrought such beneficial transformation in Scotland soon forced itself upon the acceptance of the banks in the Colony, where the need of credit for the purpose of producing commodities as well as for transferring them was more urgent than it had ever been in Scotland.

The Oriental Bank boldly introduced the innovation on its establishment in New Zealand by publicly advertising that it would grant cash credits. The Union Bank was ultimately .. compelled to follow suit and so the principle got rooted in the banking practice of New Zealand. By paying less and less .. heed to the personal security of those to whom cash credits were

granted and more and more attention to the land for the development of which the advances were wanted the banks slipped more or less insensibly into a condition of peril. The fact is that the co-operation of many causes turned the banks to a large extent into land banks which endeavoured to turn into money the .. landed resources of the Colony. This attempt was not made by means of bank-notes. No credit instruments of that kind, transmissible from hand to hand, were issued on the strength of the country's latent wealth. The note issue was subject to restrictions, too narrow, to make it convenient for that purpose. Besides, the whole course of banking experience in England and the utterances of banking authorities concentrated attention upon .. bank-notes as the paramount source of danger, Experience had yet to teach that the over-issue of money in the form of credit was easy and as perilous by other means as by that of paper money. The paper, after all, as Macleod points out, only represents a credit given and the credit can be given by an entry in the books of a bank just as effectively.

It will be well to examine deductively the consequences to be expected from the policy pursued by the banks and then to test the conclusions inductively by reference to actual banking .. experience.

CHAPTER IX.

BANKS AND CREDIT,

A bank is an institution of credit. In its essence a credit operation is the giving of present purchasing power over goods in return for a promise to re-transfer purchasing power over goods in the future. It is an exchange of commodities in the present for commodities in the future. The man or institution giving the commodities in the present or the power to give them is the lender, the man or institution undertaking to give commodities in the future or the power to get them is the borrower. The transaction is expressed in terms of money but in reality it is based on an exchange of goods with an interval of time between the first and second act in the exchange.

The true nature of credit is well expressed by Professor Laughlin in "The Principles of Money":¹

"Whenever credit is granted, it will be found that, in return for the present use of means of payment in current funds, a man has pledged some property he owns, or is believed to own, but to which he still holds the title in case he repays the loan. It usually happens that the borrower has goods, or securities or salable property - or it may be only a legitimate expectation of goods - which he cannot use, in their present form, as general purchasing power. If the manufacturer could turn the stock of harvesters and mowers in his warehouse into means of payment, he could buy more material, employ more labor, and have more machines ready for the next selling season; or if he has sold them to jobbers on time and if he could get present means of payment for the sums due him in the future, he could enlarge his business. At this point the development

"of credit comes to his aid. On the basis of property, he gets a loan; credit enables him to utilize his resources without parting with their ownership (except as modified by the pledge); it enables him to change a command over his specific kind of goods into a command over goods in general. It is credit which enables men to coin property into means of payment. It is what Sir James Stewart so well described as "melting down of wealth into bank money."

Naturally there arises some methodical arrangement for giving credit, by those who have property and capital to loan. Such institutions are usually called banks; although lending may be carried on by individuals. The sums to be loaned, although expressed in dollars, represent goods which lenders are willing to hand over to borrowers on obligations for repayment. Unused funds accumulate in bank deposits, and sums owned by persons unable or unwilling to employ them in production collect in institutions for investment. These goods appear on the deposit accounts in terms of money; but none of the institutions have money to give out for the sum of all the liabilities. Only specie enough is kept to meet the demands of those suspicious, or frightened, persons who may wish to turn goods into actual cash. Of course, if all wished to do so, not all could do it, and general suspension would result. This conclusion makes it clear that the real object is to get from goods we have to goods we have not; that money is used only for facilitating this process. But credit is also a very clever device for getting from goods to goods without resorting to the actual transfer of the specie standard (or other money)."

"The service thus rendered to the community by an institution of credit is incalculable. The institution which

"thus coins salable property into means of payment for the borrower does so only after deciding that the goods at the basis of the transaction are marketable; that is, that notes, or bills in the leather trade for instance, are safe paper to discount. In brief, the act of coining property into immediate means of payment is done on the responsibility of the lender; since if, by any mistake of judgment or honor, the goods behind the paper are not salable, or if they are not capable of being reached because of error or fraud, the institution pays the cost, and stands the loser. The situation is much the same, if the collateral - which is in reality simply a title to forms of property - depreciates; since that is only another way of saying that the value of goods, on which the securities are based, have fallen. Hence the process always has this corrective, this brake, that a mistake is followed by loss to the bank, or lender. The lender is, therefore, under a constant pressure of self-interest to see that the goods behind the paper are saleable, and that the proceeds of the sale will appear in amount sufficient to take up the obligation at maturity. The credit institutions, by thus acting, even under a heavy responsibility for inerrancy, enable the community to set into circulation - into the free exchange of goods against goods - a vast amount of property and commodities, which otherwise must remain an inert mass in the hands of owners. By credit operations they enlarge the industrial activity of the very persons most ready and able to act judiciously. If there were no credit, we should not see, as now, individuals and firms enabled to do a business enormously greater than would be possible with only the capital

"which they actually own. The encouragement of industry and the enlargement of transactions are the services rendered to society by banks and leaders."

A significant feature of banking as an institution of credit is that its liabilities are subject to discharge in coin on demand. A large proportion of its deposits are liable to withdrawal at a moment's notice and its bank-notes are payable on demand to bearer. The fixed deposits, too, are usually fixed only for short periods. Only the capital subscribed by the shareholders is beyond the reach of more or less sudden demand for payment. This capital forms but a small part of the resources employed by a bank. Deposits are a far more considerable quantity. These resources it lends out to its customers. Thus the bulk of what a bank lends is subject to immediate recall from the bank. For this reason it is a cardinal principle of banking that assets should be kept in a liquid or easily realisable condition. A bank owes vast sums to its depositors and note holders who may require of it payment without previous notice or on short notice. If it has lent out the money it owes on loans for long periods it incapacitates itself from meeting promptly its obligations according to its engagement. For this reason the favourite security of bankers is commercial paper discountable at from one to three months. The assets are thereby liquified several times each year. A bank occupies a peculiar financial position. On the one hand it is heavily indebted to depositors; on the other hand the borrowing public is heavily indebted to it. The former represents the liability of the bank, the latter the assets by which that liability is to be met. Its means of discharging its debt consists of debts due to it. Its business after all is to deal in debts. Its only way of redeeming the debts due by it is to call up the debts due to it. If these for any reason cannot be called up, if the time for their payment has not arrived, or the bank's debtors are unable to pay, the bank must necessarily suspend payment unless its creditors suspend demand. Now if the bank were re-

quired to keep cash sufficient to meet its obligations, not only the profit but the public benefit of banking would disappear. The interests of commerce insist that it shall incur debts for the purpose of creating further debts. Nevertheless, "every credit operation implies a possible cash transaction" and "prudent banking consists in making due allowance for cash demands involving the creation of credit."¹ Thus sound banking requires an adequate cash reserve and the investment of resources in easily realisable securities.

The obligation imposed upon banks to stand always prepared for the immediate liquidation of extensive liabilities prescribes strict limits to the nature of the business they can safely embark upon. An investment which might be perfectly sound to a loan company might be fraught with danger to a bank. The former can invest its funds for long periods of years having the full assurance that the money it invests will not be required during the period. A loan company is secure so long as its assets actually equal its liabilities; a bank may be in this condition and yet break by reason of inability to furnish immediate payment in cash of its debts. It circulates promises to pay on demand and registers similar promises on its books to the credit of its depositors, whilst it lends out the funds, placed at its disposal on such terms, for periods more or less fixed. The essence of banking is that the bank is liable to pay its creditors on demand while its debtors are only liable to pay it after the lapse of time. Any impairment of confidence in the bank causes its creditors to rush for a redemption of the promises. If the rush continues long enough the most prudent bank must necessarily close its doors. But confidence is invariably restored long before this extremity is reached, so long as the bank has been careful to preserve a large proportion of its assets in liquid form - in cash and quickly realisable securities. If, however, it has permitted its funds to be sunk in the purchases of land or in permanent improvements, such funds, however ample the security may be in the long run, are removed from the service

1. Hartley ~~U~~thers, "The Meaning of Money" (2nd Ed.) P. 36.

of that pre-eminent function of the bank—to pay cash on demand. The mere fact that a bank takes ^{only} land as collateral security and has the personal security of the lender, and may be of guarantors, is generally not of much help to the banker at the time help is needed. A man obtaining an advance to buy land or to improve it puts the money beyond the reach of himself as well as the bank. Even though the advance is an overdraft liable to be called in by the bank at a moment's notice, practically it cannot be so called up because of the inability of the borrower to pay until he harvests the fruits of the expenditure of the loan. The matter is quite different when an advance is made on a trade bill. This represents goods in existence sold say by the manufacturer to the dealer on terms of 3 months' credit.

The bank for a small charge called discount undertakes to give the credit instead of the vendor. When the bank collects the money from the dealer, the latter will under normal conditions have disposed of the goods and made his profit, and will have the money wherewith to meet his bill. By financing commercial bills the bank is lending its credit until the goods the bills represent are transferred from seller to buyer and made available for profitable use. There is thus an important difference between lending on trade transactions and lending to promote agriculture or landed interests. In the former case the commodities which are the subject of the trade are desired by the buyer to be turned as soon as may be into money; the banker simply anticipates the money that the goods will realise. The goods are on their way to become realised in cash. It is this which makes the security so peculiarly suitable to banks.

Commercial bills represent exchanges of more or less "finished" commodities, consumers' goods of any "order but the first," and exchange means the conversion of goods into money. Quite the opposite is the case with money advanced to promote production or the buying of land by settlers. Although the advance is nominally made payable on demand it is necessarily fixed for a long time. Years may elapse before the operations of the

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borrower enable the money he has borrowed to return to him again. In the meantime the loan must lie in an unliquifiable form. The grave risks undertaken by banks in lending extensively for productive purposes are easily realised on a little consideration. In the first place ability to repay depends upon future production - an ability liable to far more impediments than the ability to sell goods already in existence. In the second place the land is liable to depreciation in value, and its products to reduction of price. As a consequence the bank may find itself in the position of not being able to enforce the personal covenant of the borrower and of being compelled to take over in a falling market a security which cannot be sold except at an enormous sacrifice. Advances for productive enterprise usually swell in times of rising prices; the value of land rises correspondingly; rising land values lead to a speculative anticipation of them and a traffic in them not for productive purposes but merely for appropriation of the rising values; nominal values having outstripped productiveness there follows the period of re-adjustment and falling values known as a depression or, if specially acute, a crisis. Since it is on the basis of rising values that advances are most freely made the time of contraction leaves a bank with debtors who cannot pay and with securities that cannot be realised. Nevertheless the banks' liability to pay on demand remains unaltered. Legally it has a right to make demand for immediate payment upon the borrowers, for most of the loans, other than discounts, by Colonial Banks are made payable on demand, but practically the right is absolutely useless. Far from being able to repay the principle, the debtors are probably in arrear with the interest. And this time of reaction, when its securities are unrealisable, is just the time when its depositors and other creditors are specially disposed to exercise their right of demanding payment from the bank. The peril of lending money under conditions which render it so liable to become inaccessible is made the more apparent by a consideration of the extent to which banks have displaced the use

of cash by credit. In the Report of the Committee of the House of Commons on the crisis of 1857 a statement by Mr. Slater shews that not 2% of the transactions of his bank were marked by the employment of gold, and gold, silver and copper together only entered into its operations to the extent of slightly over 2%. This no doubt was typical of banking in England at the time.

The use of credit has developed much since then. New Zealand, however, owing to its sparse and scattered population has probably always required a larger ratio of coin to population than Great Britain. It takes longer for the currency to get back to the banks. Enquiry of colonial bank managers discloses the fact that at the present time coin is used approximately in 2% of banking transactions. In the seventies and eighties the banking facilities were not so great as now and the proportion of coin was certainly greater. Nevertheless in those days the amount of coin actually used must have been negligible. At the end of 1913 the cash in the banks was £5,193,045, while the deposits were £25,552,836 and the advances £23,876,004. It must be remembered that the bulk of the cash in a community at any time is in the coffers of the banks. Only what is required for small change remains out. Coin drawn out for wages on a Saturday is returned for the most part in a few days. It is perfectly clear therefore, that the banks deal in debts rather than in money, in the sense of coin. Even the Banks' deposits are largely made up of debts. £25,552,836, the amount of deposits in 1913 did not represent cash received. There was not nearly that amount of coin in the whole colony. Banking indeed consists in the erection of a vast structure of credit on the foundation of a small sum of cash. The custom of merchants is rarely to handle coin. It is troublesome to them. If A wants to pay B £1,000 he draws a cheque upon his bank in favour of B. B does not draw out the money but has the amount of the cheque placed to his credit. The result is that whereas before the cheque was drawn £1,000 stood to the credit of A in the Bank, it now stands to the credit of B in the same or

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another bank. The banks have effected the discharge of A's debt without the use of any coin at all. Again a bank may have offered to it a bill for discount for £,1000 by A who has drawn for that amount upon B for goods sold to the latter. If satisfied with the bill it will place to the credit of A in its books £1,000 less a charge for discount. A will not commonly receive any money but with this credit at the bank he will trade. If he has a debt to pay to C, he will give him a cheque drawn upon his credit at the bank. Thus the credit will be transferred from A to C. Still another typical case may be given. A may apply to the bank for an advance of £1,000 by way of overdraft to enable him to buy a farm offering the farm as collateral security. If the bank acceded to the application it will record in its books £1,000 to the credit of A. A will then pay for the farm by drawing a cheque on the Bank to the amount of his credit. This cheque will thus transfer to the credit of the vendor of the farm, £1,000. Thus a loan of £1,000 is made to A on which he will continue to pay interest until it^{is} repaid without the Bank's parting with any cash at all. The great bulk of deposits are of the same character. Deposits are commonly but the reverse side of advances. Of course there is a considerable amount of cash actually paid into the Banks by their customers which form deposits whether fixed or on current account. But the lending operations of the Banks already referred to indicate the more usual way of creating deposits. When A got a credit of £1000 by discounting his bill or by pledging his farm, he obtained a deposit to that amount at the bank. When his credit was transferred to B by cheque. B's deposit was increased by the amount by which A's was diminished. Thus the loan of the bank to A not only swells the total of the advances of the banks but equally increases the total of their deposits. The advance represents a debt of A until it is repaid but in the meantime the advance is transferred from one to another and at each transfer the transferor lessens his deposit and the transferee increases his. When A ultimately pays his debt to the Bank there will be a cancel-

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lation of an advance and of a deposit. In the case of the bill discounted, the bank will collect the amount of the bill at maturity from B who will pay by cheque, transferring a credit of his to the bank which will discharge the debt of A. In the case of the overdraft A will pay into his account a cheque from the merchant to whom he has sold the produce of his farm, which will transfer a credit of the merchant to A thereby wiping out his liability to the bank. Such a transfer of credit to A extinguishes his debt to the bank and at the same time extinguishes a deposit of equal amount. By transferring his credit or deposit to A, the person who has paid A has had his deposit cancelled by the ^{cancelling} debt of A to the Bank. Thus the circulation of the credit or deposit given by the bank in the first instance to A as a loan, has ended. Care must be taken to avoid confusion in the use of the terms deposit and advance. The Banks' common way of granting an advance to A is by placing a credit in its books to him. This then constitutes a liability (arising out of a loan contract) of the bank to A which liability is termed a deposit just as a liability created by A's actually paying money into the bank would be called a deposit, and would be included under the head of deposits on the liability side in the banks balance sheet. This liability of the bank to pay immediately to A is counter balanced by a liability on the part of A to pay the Bank at a future time. This liability is represented in the books as a debit against A and would be included under the head of advances or discounts on the assets side of the balance sheet. When now A has drawn on and exhausted his credit, his deposit is withdrawn but the debit or debt to the Bank remains. There is a difference between the English and Colonial practice respecting advances. When a customer arranges for a loan in England it is usual for him to draw a cheque for the amount of the loan at once upon a separate advance account. The loan is then placed at once to the credit of his operative account and drawn upon as needed. In New Zealand a customer wanting a loan

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arranges for a right of overdraft up to a fixed limit. He is only shewn as a debtor for the actual amount he is using. Suppose the advance arranged for to be £1,000 of which the customer immediately uses only £700, then in the balance sheet of the English bank the full £1,000 would be shewn at once as an advance and as a deposit of the borrower ~~while in the balance sheet of the English bank the full £1,000 would be shewn at once both as an advance and as a deposit of the borrower~~ while in the balance sheet of the Colonial Bank only the £700 actually drawn by the borrower would be shewn as an advance to him and the same amount would (if drawn in the usual way by a transfer of credit) be shewn as a deposit, in the lending bank or in some other bank, of the person to whom the borrower paid what he had drawn out. According to either practice advances commonly create deposits; but in New Zealand the published figures indicate the actual drawings only.

When the credit given by the Colonial Bank to A has been drawn against, the debt stands until A has transferred to him the credit of another person which he pays into the bank (by paying that other person's cheque to his banking account) and thus cancels his debt by the credit. The important point to note is that up to the time of the repayment of the loan, a deposit to the amount of the loan has been in circulation. This deposit currency forms the chief part of the medium of exchange in all communities served by efficient banks of deposit. If bank A has a debt against a customer on its books the same bank or bank B has a deposit of equivalent amount to the credit of another customer. Thus advances begin by the creation of deposits which are transferred from debtor to creditor discharging debts as they go. They perform the function of money while dispensing with the use of it. The total advances and deposits of the banks of a country represent a gigantic accumulation of credit transactions. Of course all these transactions are based upon a liability to pay in cash and every now and then cash is used. The borrower from the bank can draw out his

loan in cash or notes if he likes. But commonly he does not and the Banks could not possibly grant the accommodation they do if commonly he did. There is not the coin in circulation for the purpose.^{1.}

The question now arises what are the limits to the creation of credit. Legitimate credit has well defined although flexible and wide boundaries. This is illustrated by commercial bills. A bill of exchange represents a debt on the sale of merchandise. The buyer owes its price to the seller and the bill represents the debt. It is not convenient for the buyer to pay its price at once and the seller gives him 3 month's credit, and takes his bill. The seller transfers the burden of waiting to the Bank. In the ordinary course of things the buyer will have resold the goods before the time of payment arrives and thus will have obtained means with which to meet the bill. The bill is really based upon goods which have the power of earning the amount of the bill. It is true there may be several bills negotiated with respect to the same goods but each bill represents a separate transfer of the goods and at each transfer the amount of the bill is realised. Thus the manufacturer may draw a bill for goods sold to the wholesale merchant and the wholesale merchant draw another on the sale of the same goods to the retailer. But while there are two bills there are also two payments. The wholesale merchant meets the first bill out of the price he obtains from the retailer and the retailer meets the second out of the price he obtains from the consumer. The retailer may give credit to his customers but such credit is not made the subject of discountable bills because the retailer's customers will consume the goods and not use them as a means of further profit. The commodities have come to the end of their earning power. Up to this point the bills have been represented by goods actually in existence and with capacity to realise money to redeem the bills. Such bills seem rightly called "real" bills.^{2.}

1. See, Purchasing Power of Money, P. 44, Irving Fisher.

2. See, Macleod Volume 1, p.p. 306 - 7.

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They are generally recognised as forming an ideal security for the employment of the funds of a bank. So long as general prices are steady and the trade transactions are sound the negotiation of such bills may be regarded as a perfectly safe investment. It is true that owing to miscalculations of the market, or fluctuations in prices, or deterioration of goods or other similar misadventure the goods may be disabled from realising the amount which has been borrowed on them as represented by the bill. If such is the case the acceptor of the bill must provide for payment from other assets. If he has none available he fails to meet his bill. A sudden fall in prices may occasion many traders to repudiate in this way. Then begins a collapse of credit which makes every one eager to turn credit into payment. The Bank sets the example. The acceptance^{of} of the bill failing it turns to the drawer. When this is done to any extent disaster is bound to follow because the drawers have parted with the goods which it was intended should earn the money to meet the bills. In other words the asset on which the liability rested has been lost. Any widespread enforcement of liabilities when their corresponding assets have been destroyed is bound to meet with much inability to pay. In the endeavour to meet their liabilities both acceptors and drawers and indeed endorsers of bills press their debtors and before long the pressure comes upon the bank. The bank is necessarily a great debtor and a debtor that has undertaken to pay most of its debts on demand in specie. In times of general pressure people are not prepared to accept payment in the form of promises to pay or credit. It is just the failure of many of these promises that has led to the general rush to call in liabilities. Hence the bank suffers not only from a general contraction of credit and an inability to realise a portion of its securities but also from the withdrawal of deposits in cash. It requires strong reserves of coin, and of security quickly convertible into coin, to withstand successfully such pressure. Such are the difficulties a bank must be prepared to encounter when restricting its operations.

1.
to what the most conservative bankers approve.

But the lending of a bank is rarely limited to the discounting of real bills. Its chief concern being the personal credit of the borrower or his guarantors it makes advances where this is good, apart from the existence of real bills. This may take the form of discounting accommodation bills or lending money for the purpose of assisting the future production of wealth. Here the elements of risk enter more largely. Where A draws a bill upon B, when B is not indebted to A, but which B accepts in order that A, having the advantage of B's name, may raise money on the bill at the bank, we have a creation of credit unfounded upon anything produced or capable of earning the amount of the bill. If the credit or deposit A obtains at the Bank is used to buy goods for trade then he has simply got his loan before the purchase instead of after it and the bill is not substantially different from a real bill. It is indeed immediately converted into such; by the sale of the goods A will secure the means of redeeming his bill. But in its origin the accommodation bill is a pure creation of credit/^{un}connected with a normally lucrative commercial transaction. There is no assurance that it will be afterwards so connected. The loan obtained by it may be employed in some wild speculative way where, when the loan is expended, there is no product or saleable article out of the value of which the loan may be repaid. The extensive discounting by the banks of bills devoted to such purposes would be a gravely hazardous matter. We commonly speak of money being lost when there is no saleable wealth as the outcome of its expenditure. Money here of course means credit as well as cash. Times of speculation are fruitful in these losses. In the last analysis loss means the necessity of payment without resources. When resources are created by the loan the borrower can readily repay it by having transferred to him another's credit in exchange for the resources. Thus the obligation of the loan is shifted and it may go on passing from one to another indefinitely so long as the person upon whom it rests for the time being has wealth to offer with it.

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A owes £1,000 on a bill which he has accepted; he transfers the goods which he paid for by this bill to B for £1,000. By means of another bill accepted by B and discounted by the bank A obtains a credit at the bank for £1,100 which more than meets his loan of £1,000. But the loan is not really extinguished; it is only transferred to B having been increased to £1,100 in the course of the transfer. Thus by mere transference of credit the loan is shifted; but when the loan is lost, in other words when A transfers his credit or right to draw upon the bank in exchange for something which turns out valueless, the further transference of the loan is arrested. A has drawn upon the credit given to him by the bank and created a debt there, but he has not obtained thereby any exchangeable wealth by giving which he can get B to assume the debt. Thus A has to repay his loan with cash or by the sale of other resources, in the ^{matter} already described. The failure of his venture has stopped the further extension of credit. Indeed it has brought about the necessity of an extinguishment of a particular credit. It has precipitated the period of redemption at a time of least ability for the purpose. Thus there is a limit to the continuance of credit for speculative purposes - the rigorous limit imposed by unproductiveness. Unfortunately there is not the same limit to its creation. There is no assignable boundary to the manufacture of money or credit out of the personal character of men. The limit to the circulation of credit however, is not always reached so quickly as the foregoing would seem to indicate. An accommodation bill may be met by another accommodation bill where the credit of the drawer is good and the second one by a third and so on, the time of realisation being indefinitely postponed. A business house of established character may impose upon a bank by drawing large numbers of bills on men of straw or dummies. When discounting them the bank is usually satisfied if the personal credit of the drawer is good, for if the acceptor fails, the bank has the drawer to fall back upon for payment. The following from Macleod¹ illustrates the way in which accommodation bills may grow with a man's financial difficulties ultimately occasioning however the

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heavier and more signal loss.

"In the case above mentioned, Laurence, Mortimer & Co. were of very high position and of old standing in the commercial world. They were leather and hide factors, and the house was of about fifty years' standing. They bought on commission for tanners and sold leather, and had leather consigned to them for sale. The hides were paid for by the tanners' acceptances of the factors' drafts at four months. In the course of business they got connected with a considerable number of houses which were in a state of insolvency. To support these houses, and to extend their own operations, they entered into an enormous system of accommodation paper. They were in the habit of advancing money to their customers at five per cent., and then discounting these bills at their bankers at three per cent., thus making two per cent., by the transaction. When their customers often lost the money, the bills were renewed, or new ones created of arbitrary amounts, to conceal the loss. The house had an agency in Liverpool, which pursued exactly the same course. They set up people ostensibly in business, for the purpose of drawing on them. And these "dummies" drew upon the house, and these cross acceptances were afloat to a large amount. This will be sufficient to give an idea of this complicated net-work of cross transactions between the house and its satellites. In the meantime heavy losses were sustained in their trade transactions, which were, in fact, extracted out of the bankers by the fraudulent concoction of bills among the losers. The high standing of the house enabled them to entangle no less than twenty-nine banks and discount houses in their meshes. At the time of the stoppage the London House had liabilities of £820,000 of which £620,000 consisted of these fraudulent bills. The Liverpool house had liabilities of £158,750 out of which £130,000 were fraudulent. Such is one example of the mischief worked by this nefarious system."

The history of the Colonial Bank of New Zealand will furnish some signal instances of the perils of accommodation bills or "kites" as they are often called.

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Thus it appears that commercial bills recognised as the legitimate subject of a Bank's trading, may lead to a hazardous extension of credit beyond all possibility of redeeming it. The security of real bills is assailable by all the causes which occasion a lack of normal adjustment between supply and demand of commodities, but accommodation bills are fraught with fearful additional dangers, while their character is often undiscoverable by the bank.

Banks not only lend on bills which are supposed to represent actual production in the form of goods ready for transfer but they also lend to aid production yet to be effected. This may be done in various ways. It may take the form of the cash credits in Scotland where on the security of at least two good names a man may obtain credit at the bank to enable him to start a mercantile business or to cultivate a farm. Although the advance or credit is given before any material wealth exists out of which repayment may be provided, the responsibility of the guarantors operates to induce them to see to the proper application of the credit borrowed - in other words to insure that the loan is devoted to the production of goods out of which it may be redeemed. The assistance to future production may also take the form of advances to business men without sureties on the faith of a good balance sheet or to agriculturalists on the deposit of title deeds or the mortgage of their lands. In each of these cases the bank is satisfied with the personal liability of the borrower only, feeling assurance in the lucrative nature of his business or the value of his land. On the strength of the future earning power of the business or the land, the bank lends its credit. This kind of lending is attended with more risk than that of cash credits. The security offered by two substantial men is better than that offered by a substantial business or valuable land. These are liable to be overtaken, the one by low prices and slack trade, the other by diminished value. New Zealand Banks have never systematically pursued the policy of the cash credit, they have rather favoured dispensing with sureties and relying upon collateral security of a material nature. This has been the chief cause of their distresses and

will receive abundant illustration. A bad harvest or a fall in the price of produce may make it impossible to pay the principal when the bank calls it up and may even embarrass the payment of interest. The same causes are apt to bring about a fall in the value of the land, making it exceedingly difficult to realise the security. It is true that the banks may be said never to lend money on mortgage for fixed periods. The mortgages are always redeemable on demand of the bank. But after all redemption is only possible when the loan has created by its employment the means of its own repayment. If it has failed in this respect, the bank will find that it must nurse the borrower or take over his land. When the latter is done it is generally in time of great depression of values when all prospect of repayment by the borrower has passed away. And a time of such depression is just the time when to sell the land is impossible except at a heavy sacrifice and often practically impossible under any available conditions. The subsequent chapters are largely an elucidation and exemplification of this danger.

Thus banking consists in converting not only all the existing exchangeable wealth into money by giving credit on the foundation of it, but also in converting a great deal of the anticipated wealth into money by giving credit to be redeemed out of the wealth when created. In turning the wealth that is and the wealth that is to be into money it uses practically no cash. The money it pays out is simply its credit. It says in effect to a community I will supply you with money to represent your existing and anticipated wealth. As Professor Irving Fisher says "Through banks, he who possesses wealth difficult to exchange, can create a circulating medium."¹

Not only do deposits and advances represent credit transactions almost exclusively but even the capital of the bank subscribed by shareholders is represented only to a small extent by cash. When a man buys shares in a bank he commonly transfers

1. Op. cit. p. 41.

to the bank's funds by cheque a credit which he has in that or some other bank. When the bank of New Zealand increased its capital by £100,000 in 1871, it did not get an increased amount of coin to that amount. Possibly it received no increase of coin at all. But A who wished to purchase shares to the value of £200 drew a cheque in favour of the bank on £200 that stood to his credit in the bank. The effect of the transaction was an increase of the bank's capital by £200 but it was accomplished not by A's giving £200 in cash to the bank but by A's foregoing the right to draw upon that £200 to his credit. Even the liability of the bank to pay £200 was not cancelled. The only charge was that ^(the bank?) A was no longer liable to pay that £200 to A on demand. The bank had secured the right to hold it and use it without being subject at any time to have it called up. The debt owed by the bank to A remained; but its character had been changed. It had become a debt the bank need not pay until liquidation. With this debt it could now trade more securely. As A would not want payment it could lend to B the £200 or more correctly speaking the credit to that amount that A had been entitled to draw. Having lessened its liabilities on demand by £200 it was in a position to increase its advances by that amount without adding to the total of its credit obligations. Thus the increase of capital operates ultimately as a transference of credit from one who has no immediate use for it to one who forthwith requires it. The case given is typical. It makes no substantial difference if the increase of capital is partially occasioned by transferring a credit of A in bank C to the capital funds of bank B. The effect on banking credit generally is the same. It thus appears that banks are dealers in credit. They buy and sell debts. They receive relatively few payments in coin and they make few. They pay nearly all their debts by promises to pay. Bank-notes are one form of these promises but far more important are the promises simply recorded in its books as credits of its customers. When one customer asks for a redemption of the promise it is effected

by simply transferring the promise to another. A calls upon the bank to pay by a cheque which B presents; the bank now credits B or promises to pay him and so constantly shifts the payment in cash by promising to pay some one else. Deposits, advances, and capital are all alike mere credits, a vast edifice of promises to pay built upon a narrow foundation of coin. The deposits and the notes are the bank's promises to pay the public: the advances are the public's promises to pay the banks; the capital is the bank's promises to pay shareholders on liquidation. All these promises however are promises to pay in cash and herein lies the hazard of banking. Depositor A need not accept payment from the bank by allowing the bank to promise to pay B a debt which A owes to B. A may demand cash and with the cash pay B. The Bank then begins to feel straitened. So long as promises to pay were satisfactory it has no trouble. When A wanted money to pay B the bank manager said, "I will promise to pay B instead of you and that will satisfy B because he has perfect confidence in my bank." When B wanted money to pay C the bank undertook the obligation for B, and C was satisfied knowing that he would be able to pay D in the same way. But if A insists on getting cash and will not start this credit cycle moving, and a multitude of men like A do the same, the bank is at once in trouble. A large portion of its deposits and all its notes are payable in cash on demand but the cash in its coffers is always but a very small proportion of its liabilities to pay cash on demand. It cannot pay in cash as it has promised. No bank can. If it kept itself in a position to do so it would make practically no profits for its shareholders and would render no service to commerce, and industry. What then must it do when its creditors are asking for payment in cash instead of promises to pay other people? Its cash being insufficient it must call in its advances. But it is a much more difficult thing to obtain payment of advances than to make them. They are made by the mere creation of deposits, that is, by promises to pay that pass the credit of one man to the

credit of another, in discharging debts, as coin passes from hand to hand. The banks are enabled to make extensive advances because their promises to pay circulate as effectively as coin. So long as the banks have the confidence of the public creation of credit is easy; far different however is the redemption of credit. The advances are debts of one class of people and the deposits credits of another class. It was a simple matter for A to borrow £1,000 of the bank by getting it to transfer a credit for £1,000 to B to whom A was indebted. The result of the process was to give A an advance of £1,000 and B a deposit of the same amount. But when the bank calls upon A to pay that £1,000 it cannot be paid by merely extinguishing a corresponding deposit, as the advance was made by creating a corresponding deposit. A can get an advance by giving a deposit to B; but manifestly A cannot discharge his debt by using a deposit belonging to B who is not indebted to him. He must find some independent means of payment. The resource of the bank is not available to him. He cannot discharge his obligation by a mere promise. The bank can make a loan to A by promising to pay A's debt to B, but A cannot repay his loan by any such simple process. He must actually find the cash or some goods by selling which, he will secure to himself a transfer of some one else's credit and so be enabled to cancel his debt to the bank. But a time of depression and failing credit means that the latter is just what generally he cannot do. Hence he must pay in cash. But cash is just as difficult to procure without goods as credit is. Besides there is never an amount of cash in a country equivalent to anything but a small fraction of the loans of the banks. The consequence is that no bank from the very nature of its business could survive a demand for the withdrawal of all its deposits and the payment of its notes; this would involve the calling in of all its advances and this ^{it} could not do. So gigantic are the transactions of credit that ruin is averted only by maintaining the credit. Credit can never be generally liquidated without disaster. But a bank may sustain a partial collapse of credit

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if it has a large proportion of liquid assets. If, however, its reserve of cash is meagre and the securities it holds for its advances are difficult to liquidate, embarrassment quickly overtakes it as soon as there is a check to the circulation of credit owing to the unproductive employment of the bank's advances. Such unproductiveness commonly means that the bank must satisfy itself out of the securities. If the security consists in a bill, it can fall back upon the drawer. Banks generally know more about drawers than acceptors, and if they have exercised ordinary prudence in not discounting for unsubstantial men a great number of them will be able to meet their engagements despite the stringency occasioned by arrested credit following arrested production. For the most part the drawers will be men with a surplus of assets over liabilities. At any rate the risk of a bank's having bills on its hands of which it cannot obtain payment at due time is greatly lessened by having recourse to the drawer. Generally when a bank obtains payment of an advance from a drawer it does so by means of cancelling a deposit. The drawer is almost invariably the customer of the bank which discounts his bill. He keeps his deposit account there and in a great many cases all that the bank has to do when the acceptor dishonours the bill is to debit the deposit account of the drawer. Thus the advance is repaid by a cancellation of an equivalent deposit and no cash is needed. To be able to realise securities in this way, is of immense service to the bank in a time of contracting credit and demand for liquidation. Just as the bank had in reality made an advance to the acceptor by giving a deposit to the drawer so now it recalls that advance by cancelling a deposit of the drawer. That is indeed ideal security which can be realised by a mere wiping out of credits or deposits in the books of a bank. If a bank could do this in all cases it would never need to fear a general withdrawal of deposits, so long as the withdrawals were spread fairly evenly over ^{the} three or four months the period of the currency of the bills. To be able to meet its demand obligations by mere transference of credit

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this way is simply to retrace the steps by which its credit obligations were extended. It is a mere facile undoing of what has been as facilely done. Of course even with bills, the undoing meets with hindrances occasioned when drawers at the time when the bills are dishonoured have no longer deposits available. Then they must either provide cash or get a transfer of credit by selling goods that they have. When this takes place the bank runs the risk of embarrassment. For instance, suppose A has discounted a bill on B for £1,000 and having had £1,000 less discount, put to his credit at his bank has transferred by cheque his right to draw out £1,000 from the bank to C. Assume now that B fails to meet the bill and A has not only transferred to C his £1,000 but has no other deposit at the bank. Then C may demand immediate payment of £1,000 in cash from the bank at the time when the bank finds it cannot obtain immediate payment by credit or cash from A to B. Nevertheless, except in times of genuine crisis, and a complete collapse of confidence in credit, the bank will be able to use the debts due to it by way of advances on bills to meet to a large extent the debts due by it in the form of deposits.

The cash credit system supplies the same kind of liquid security - that is a security flowing easily to fill up a void of debt. If the enterprise of the borrower fails, and the loan has not enabled him to produce wealth which would give him the cash or credit to pay for the loan, the bank falls back upon his guarantors. Commonly they are men with deposits at the bank and the loan to the borrower is paid by cancelling an equivalent amount of the surety's deposits. In short, similar considerations apply to this kind of security as apply to mercantile bills. The borrower of a cash credit offers perhaps less security himself than the acceptor of a real bill, because the former has not and the latter has goods at the time of the loan which normally will provide the means of payment. But this deficiency is made up by having two guarantors in place of the one, represented by the drawer of a bill.

But now let us look at the position of a bank in a time of

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contracting credit and failure of loans to provide their own payment out of the fruits of their expenditure; let us look at it under such conditions that a large proportion of its advances are collaterally secured by mortgage of land. As before I assume that the borrower has failed to make his loan productive and cannot pay on the bank's demand. The bank then takes over the security but this in no way assists the bank in meeting its obligations. The possession of the land in no sense equips it better for discharging its obligations to pay on demand. Its depositors may be paid in cash or by release of debts but they cannot be paid in land. When the acceptor of a bill fails to pay there is usually a credit or deposit of the drawers which can be used for the purpose. So that if the bank does not increase its actual cash by the repayment, it does what amounts to the same thing, it reduces its liability to pay in cash. But when it falls back upon the security of land, it thereby gets neither cash to meet its liabilities nor credits to lessen them. In short, land is a kind of wealth of no service at all to a bank until converted into money, cash or credit. If it can sell the land, the buyer will either pay cash or give a cheque on a bank deposit he has. One manner of payment will increase the cash resources of the bank, the other will lessen its need of them. In a season of contracting credit a bank must be able to do one or other of these things. But a time of contracting credit is just the period when the bulk of men are needing all their cash and deposits to meet their engagements. The arrest of credit at one point operates like the precipitation of a stone in a lake; the disturbance of the surface of the water extends far beyond the point of impact. If A, B, C, D, have traded with a certain commodity, A selling it to B, B to C and C to D and A, B, and C have each drawn a bill to the amount of the price, then if D loses the commodity or cannot deal profitably with it, he may be unable to pay C and C may be unable in consequence to pay B and for the same reason, B be unable to pay A. In other words, four men would successively be making desperate efforts to get cash or

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deposits to meet unexpected losses. Such men are not in a position to use deposits or cash to buy land or for any other purpose but to meet existing liabilities. And their condition is typical of that of the vast majority of men at a time of contracting credit and depression. The time when banks have to take over their landed securities is just the time when they cannot realise them and this is generally just the time when their realisation is imperative. Often it is impossible to get a market at all for the land; and if it can be sold, it is usually at such a low price as to involve the bank in loss. The deposit created at the time of the advance cannot be discharged by the proceeds of the land, thus the final result of the transaction is a liability by the bank without a corresponding asset. To avoid loss from sheer inability to sell, the bank will endeavour to hold the land until the process of contraction is over but to do so, is attended with one or two serious drawbacks. If the contraction becomes severe the bank runs imminent hazard of having to suspend payment of its debts on demand. Even if this does not take place, the check to the circulation of credit, which threw the land into the hands of the bank, cannot be removed. An amount of credit represented by the loan in the first instance has been cancelled and cannot be re-issued until the land is sold. When the bank sells the land, it will obtain cash or a cancellation of an existing deposit or a transfer of a deposit from another bank - any of which will give it resources for further lending. In the meantime, production generally may suffer, further, through the bank's having to discharge the extraneous functions of a farm manager.

In applying the foregoing principles to New Zealand, it must be borne in mind that there is a considerable difference between the terms on which deposits are commonly received by English, and Scotch joint ^{stock} banks, and those on which deposits are received by Colonial banks. The latter draw a clearer line of division between fixed and current deposits. Fixed deposits cannot be withdrawn, like interest-bearing deposits in Great Britain, at any time on a stipulated notice. They are fixed for a definite period, and quite a large proportion, for a period of twelve

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months. By this means, the liabilities at call of the Colonial banks are relatively less. When the Oriental Bank in 1857 introduced the practice of paying interest on deposits, it followed the English custom, but the custom was soon abandoned by the New Zealand banks generally in favour of deposits for terms definitely fixed. The interest-bearing deposits disclosed in Table A of the Appendix are deposits so fixed. It is apparent from the Table that since 1870, they have constituted a large proportion of the total deposits. This has not taken away from Colonial banks the essential characteristic of banking - that of general liability to pay debts on demand - but it has tended to qualify that liability to some extent. This distinction between British and Colonial Banks is noted in Mr. Hamilton's legal work entitled, "The Law and Practice of Bank^{ing} in Australia and New Zealand." ^{1.}

A further distinction between Australasian and English banking has been already referred to but requires special emphasis. An English bank makes an advance by giving a deposit^{or} a "right to draw." The loan is made as soon as the right is given and before its exercise. Commonly in New Zealand an advance is made by allowing the customer's current account to be overdrawn, but it is not the right to draw but the actual drawing which is reckoned the advance. The right to draw is treated neither as an advance nor as a deposit, until it is exercised. Thus an advance may be made by the exhaustion of a deposit instead of by the creation of one. Of course, commonly what "A" draws out as an advance, he uses to pay "B" who lodges what he receives in the bank as a deposit.

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But this redeposit need not necessarily take place. In New Zealand, as in England, a loan by a bank normally increases the deposit currency, but in point of time, the loan in New Zealand is not reckoned as such in New Zealand until the deposit given by the bank to the borrower has been drawn upon by him. It follows that advances and deposits are by no means the same

1. p.p. 64 - 9.

2. See Irving Fisher, op. cit., p. 38.

things in New Zealand and that Macleod's dictum that banks
"make an advance by creating a deposit,"^{1.} requires qualification.
Advances in New Zealand are deposits withdrawn - given by the
bank and simultaneously drawn upon. They do not invariably
return in the form of deposits, lodged by customers. They
normally do this where the advance is made upon goods or produc-
tion. The advance which assists production creates the wealth
which gives to some one money or credit to deposit in a bank.
Thus it becomes a sign of inflated credit where advances exceed
deposits. It indicates that credit is getting away from its
proper foundation - production. Here is the key to Table B
in the Appendix with its great excess of advances over deposits.

1. Theory & Practice of Banking, Vol. 1, P. 329.