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Author(s): H. D. Bedford

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NOTES AND MEMORANDA

THE MONETARY DIFFICULTIES OF EARLY COLONISATION IN NEW ZEALAND.

I.

Government Debentures as Inconvertible Paper Money.

NEW ZEALAND became a Colony of the British Crown in 1840. It did not receive representative Institutions until 1852. The experiences of the Government during the first few years after the proclamation of British Sovereignty bore ample testimony to the difficulties which the lack of banking facilities and a sufficient currency can occasion.

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. 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 explains the great excess of imports over exports in the infancy of the Colony. In 1842 Wellington imported goods to the value of £38,840 from England, while her exports to that country were nil; and in the same year her exports to the United States of America were £12,156, and her imports from that country £73,743, showing that Great Britain was partially defraying the cost of colonial government through America. There being always a balance payable by Great Britain to New Zealand, Governors were in the habit of drawing bills on the Imperial Treasury in anticipation of money to be received. These bills were sometimes discounted by the local banks, the Union Bank of Australia, and the New Zealand Banking Company, 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 per cent. to 8 per cent. The Bank's ordinary rate of discount was 12½ per

cent., but the Government could generally arrange with it for the transmission of money from England for a commission of 5 per cent. 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 ill-provided with capital, and dependent upon colonising bodies such as 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. For many years the colonists were largely dependent upon other countries for the supply of a 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 November 18th, 1843, bewails the general depression, and ascribes it to there 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 of the ablest men. Nevertheless, after making all allowances, Governors Shortland and Fitzroy must be

charged with an aggravation of the difficulties. On April 19th, 1843, a Memorial of Grievances was addressed by the settlers to Lord Stanley, Principal Secretary of State for the Colonies.

One act bitterly complained of had reference to certain bills, amounting to £5,000, drawn by Governor Shortland 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. The memorialists stated that had the bills been offered to colonial merchants they would have secured purchasers at par, thereby securing a good price to 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. There, after remaining for some time unsold, the drafts drawn against them for immediate use of the Government were dishonoured, to the great loss of those who negotiated them. They were then handed over to an agent and sold at the unheard-of rate of 15 per cent. discount. Such were 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 October 27th, 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 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 18th, 1842, intimated that he had drawn on the Lords of the Treasury for £13,976 8s. 3d. to pay debts owed by the local Government; but the Imperial Government was reluctant to honour unauthorised drafts, and this reluctance made bills of uncertain value. In December, 1843, the Imperial Government stated that it would assist local revenues to the extent of £7,000 only per year. Governor Hobson had previously negotiated three bills of £5,000 each with one Mr. J. H. Wray, but

their acceptance had been refused by the British Lords Commissioners. Authority, however, was given by despatch of April 10th, 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 £15,000; 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 words painted on his door: "Notice—This shop to open shortly with a prime stock of bran new debentures." 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 overdue 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 20s. debentures at public auction. They realised only 17s. to 18s. each in coin. 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. There ensued a "run" on the Bank in Auckland. 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 of Auckland, held a hurried interview with the Governor, the outcome of which was a proclamation making the debentures legal tender. This eased the Bank, and it 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 5s. and 10s. on the pretext of providing a convenient circulating medium of low denomination. The depreciation of the notes was shown in the premium of gold, and the gold 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. Considerable quantities of notes of 3*d.* and 6*d.* found their way into circulation.

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 done this, he sought to cover his action by obtaining the sanction of his Council, and on May 7th, 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 £15,000 and to make them legal tender. At the same time the despatch of April, 1843, was published.

Accordingly, on May 16th, 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 of New Zealand. It was not carried without question, and indeed evoked considerable discussion. 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 £18,000 and Dr. Martin at £10,000. It was proposed to issue Government debentures to the amount of £15,000 bearing interest at 5 per cent. per annum. Although the real ground for turning Government debentures into money was the embarrassment of the Government, 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.

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 October 27th, 1844, which reached New Zealand about April the following year.

The conduct of Captain Fitzroy in issuing inconvertible debentures as currency was the subject of strong animadversion by the London Press,¹ and occasioned many references in the British Parliament. These references are collected in the *New Zealand Journal*, 1845-46. 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 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.

Captain Fitzroy's necessities would not permit him to carry out the instructions contained in the despatch of October 27th, 1844. Without the knowledge of the Colonial Secretary he had already issued debentures far in excess of the purported authority of the Ordinance of April 10th, 1843. Instead, now, of replacing debentures already in circulation with new £50 debentures, he issued the latter without recalling the former. Indeed, on April 10th, 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 occasioned in commercial circles, and on July 2nd, 1845, a public meeting was called in Wellington to protest against the policy of the Governor with respect to debentures.

A memorial was presented to the Governor requesting information concerning the quantity of debentures in circulation. Needless to say, the information was not forthcoming. According to the *Spectator* (New Zealand), the debentures had driven the coin and bank-notes practically out of circulation. "The currency of Auckland consists entirely of debentures." The speech of Governor Fitzroy to his Council on April 5th, 1845, sufficiently establishes the recklessness with which debentures were issued.

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

"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 per cent. The resolution of payment of only half salaries would be rescinded, and the new debentures would be, if not actual payment, security until he ascertained from England how far the Home Government would assist us."

From the Governor's embarrassments there was no possibility of extrication with honour. 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 £15,000 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 per cent. below their face value. These excesses of Governor Fitzroy in conjunction with other marks of maladministration occasioned an almost unanimous demand for his recall.

Captain Fitzroy was accordingly recalled, and Captain Grey (afterwards Sir George Grey) was appointed on November 18th, 1845. He immediately prepared to put into effect the orders contained in the despatch of October, 1844, and the subsequent despatch of April, 1845, disallowing the Ordinance of May, 1844. On November 22nd, 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 inconveniences 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 £15,000 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 8 per cent. per annum.

This is the only period in her history when New Zealand has had an inconvertible 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 inquiry 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 colonising 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 cover dishonoured 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. Lord Stanley admitted in 1844 that these drafts had become unsaleable. Then came the last desperate expedient. As the drafts could not be turned into cash wherewith to pay debts, they, in the form of debentures, were forced upon creditors in lieu of cash.

It is not easy to see a legitimate course that was practicable to the local Government at that time. It must also be remembered that the repudiation of the legal-tender debentures greatly accentuated their depreciation and intensified the embarrassment of business. No doubt such disavowal was necessary. It would

have been calamitous to allow the policy to continue of circulating debentures as an inconvertible paper money. 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.

II.

Convertible State Notes.

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 February 2nd, 1847, and the following important extract from it was published in the *Government Gazette* of July 8th, 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 there 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 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 main-

tained. 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 was sanctioned by the adherence of the leading financiers of the age. It is essential to a proper understanding of the State 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. 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. They plainly manifested their utter lack of 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 deben-

tures 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.

It appears that Lord Grey 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 returns. Business had shrunk so greatly that it was not solicitous of publicity. The last return published in the *Gazette* was for the quarter ending June 30th, 1842. The notes of the Union Bank then in circulation were £10,357, and the New Zealand Banking Company had a circulation at the same time of £5,385, making a total of £15,742. The note circulation of the Union Bank at the time of the State Note Ordinance was, according 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 into 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 Kororareka, 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. 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. 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 per cent., and if gold were asked for the premium was 3 per cent. So that while it was not true that no description of paper money was in circulation in the Colony, 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.

The unpopularity 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. Complaint was made that it contracted credit at most inconvenient times; that its exchange rates between the leading settlements was 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.

On October 11th, 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 £30,371 17s. 2d., and on the date mentioned an Ordinance was issued providing for the redemption of these debentures out of the general revenue of the Colony.

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 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 October 16th, 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 so much 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 31st, 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 three 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 they were all made in English Consols.

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, convertible on demand, of a face value equal to the amount of the coin deposited. The Government provided the 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 Paper Currency Ordinance encountered hostility 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 August 17th, 1847, by Governor Grey. 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. Merri-man, 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 of 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 shown 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.

Although the Ordinance was passed October 16th, 1847, the Bank did not open its doors until June 3rd, 1850. 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.

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, May 17th, 1856, the circulation of the two branches was £54,085, of which £26,805 were in notes of £5 and upwards and £27,280 in notes of under £5. With the more extended use of the currency furnished by the Bank the number of notes of smaller denomination naturally increased.

The Bank seems to 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 showed 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 £3,967. The advance in Wellington was steady, but slow at first. In December, 1850, notes were in circulation to the amount of £4,101. A year later the amount was £7,431, to be doubled during the succeeding year. In February, 1856, the amount stood at £40,007. Auckland's last annual return, December, 1855, showed £12,944 in circulation.

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

	£	s.	d.
Manager's salary, June to December ...	115	7	8
Safe, stationery, &c.	32	7	11
Half cost of manufacture of notes	53	18	6
Total	£201	14	1

To defray these expenses there was no income. In 1850 the Auckland branch had to borrow £300 from the Commissariat Department to meet current expenses. Wellington's expenditure for that 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 Lords Commissioners of Her Majesty's Treasury £2,000 for this purpose. By 1856 the sum of £25,000 was invested. Auckland's investments were on a much smaller scale. At the end of the year 1855 it had £6,000 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 per cent. Consols, and just shortly before the closing of the Bank the total sum of £31,000 had been invested in the purchase of £33,066 11s. 11d. of 3 per cent. Consols. The Bank was now self-supporting, and on the point of yielding revenue 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 May 2nd, 1856, Mr. James Macandrew urged in the House of Representatives that the right of note issue be granted to private banks. The burden of the complaint against the Bank of Issue was that the surplus funds were invested in British securities at 3 per cent. while the Colonial Government was borrowing at 8 per cent. and the Provincial Governments at 10 per cent. 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 per cent. As Mr. Cargill pointed out in tracing the history of the Bank, Governor Grey originally designed to place the surplus funds in the hands of the Colonial Government for investment. 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 per cent. to 200 per cent. higher.

Ultimately a Parliamentary Committee inquired into the working of the Bank of Issue. The following are the main portions of its report furnished June 28th, 1854:—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 belongs 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 last monthly returns for June, 1854, are embodied in the Report, and were :—

Notes issued :—

						£
Wellington	...	...	...	...	...	32,842
Auckland	...	...	...	...	...	7,481
Total						£40,323

						£
<i>Coin Invested :—</i>						
Wellington	...	...	...	...	...	15,000
Auckland	...	...	...	...	...	1,000
<i>Coin in Chest :—</i>						
Wellington	...	...	...	...	...	12,842
Auckland	...	...	...	...	...	6,481
Total						£35,323

The British funds in which the money had been invested had fallen 15 per cent., causing a diminution of capital of about £24,000. This interfered with that steadiness of value which coin generally possesses.

On July 29th, 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.

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 pursuance 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 inter-colonial 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. The failure of the State Bank 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 the purposes of development, would allow the State Bank to invest the funds in England at 3 per cent. while the Colony was borrowing at 10 per cent. 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 the 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. The functions of such banks the State did not exercise, and private banks were loath to do so without the privilege of note issue. Subsequent history shows that banks in New Zealand have been looked upon rather as lending institutions than as 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, at no time since has there been any attempt on the part of Governments 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 incursion by the Government into the sphere of banking for nearly fifty 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 safeguards 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.

H. D. BEDFORD.

WOMEN TRADERS IN MEDIEVAL LONDON.

AT the present time when women, in response to their country's call, are entering trades usually carried on by men, it is encouraging to look back into the past and see how large a part they played in the business life of England's greatest city, in an age which, like our own, though for quite a different reason, was a period of crisis. The fourteenth and fifteenth centuries witnessed an extraordinary expansion of English industry and commerce, which made unprecedented demands upon the nation's resources, and necessitated an increase in the number of workers; and in London, the great centre of activity, it seems to have been taken for granted that women should do their share. No trade was closed to them by law, and evidence exists in the civic records of their employment in occupations of many kinds. Legally they were in a better position than men, after 1363, in one respect at least, for an Act passed in that year ordered men to keep to one trade, while women were left free to follow as many as they chose.

Some of their occupations were very trivial and insignificant; one was a *flaoner*,¹ a maker of flauns, a light cake, not unlike a pancake; another was a *herb-wife*,² and others sellers of old clothes.³ On the other hand, they were also engaged in some of the most important and remunerative trades; they were *merciers*,⁴ *drapers*,⁵ *grocers*,⁶ and *merchants*,⁷ and sometimes had the honour of serving the King. Henry III. paid Mariot, wife of Robert de Ferars, over £75 for palfreys, horses, harness, and other neces-

¹ Sharpe, R. R., *Calendar of Wills* (hereafter quoted as *Wills*), I, 105.

² Sharpe, R. R., *Calendar of Letter-Books of the City of London* (quoted by letter only), K, 293.

³ *E*, 157, 158, 161.

⁴ *Wills*, I, 462, 489, 628; Selby, W. D., *Charters . . . of the Mercers' Company*, 72-73.

⁵ *Journals*, XI., f. 209 b and seq.

⁶ Heath, J. B., *Grocers*, 424.

⁷ Riley, H. T., *Memorials of London*, 75; *Early Chanc. Proceed.*, 137/33, 127/66; Sharpe, R. R., *MS. Cal. Plea and Mem. Rolls*, A. 12, Roll 3, A. 5, Roll 23d, A. 10, Roll 14.