

## NEW ZEALAND.

### HOUSE OF REPRESENTATIVES.

#### REPORT OF SELECT COMMITTEE ON BANK OF ISSUE.

THE Committee of the House of Representatives, appointed to report "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," having taken evidence, such as could be obtained on the spot, and attentively considered the subject, have agreed to the following Report.

They find that the present Colonial Bank of Issue was established at Auckland and Wellington on the 16th October, 1847, in consequence of instructions from Lord Grey, of the 2nd February of the same year, in which his Lordship acknowledges to his being ignorant at that time of the existence of the Debenture Debt, or that any paper money was in circulation in the Colony.

He admits the measure to have been an experiment, and the principal objects he proposed to accomplish by it were the economizing of capital and the uniting the convenience of a paper currency with the steadiness and uniformity of value which belong to a metallic currency.

In the first stage of the enquiry your Committee met with a difficulty from being unable clearly to understand what distinction, if any, Lord Grey draws between coinage as currency and coinage as a commodity of commerce. Currency in its legitimate sense signifying something which, whether or not having value in itself, passes current for and represents something else having a real value. The term is equally applicable to bank notes, bills of exchange, and promissory notes.

Coinage, always supposing it unadulterated, whether consisting of gold, silver, or copper, has another distinguishing feature, that of substantiality. The commodity composing it, is a marketable one, and a pound weight of it has at all times a value just as a pound of coffee, sugar, or any other article of commerce, and is, though in a less degree, subject to the same fluctuations.

It is necessary to distinguish between these terms in order to understand clearly the character which the Bank of Issue assumes as a new and anomalous institution, for there appears to be nothing exactly like it existing anywhere else,—and it may be characterized as a measure for economizing the gold coinage (not the capital) of the Colony, by substituting a paper currency, for the coinage which it withdraws from circulation, and investing the latter at interest, thereby economizing it or rendering it productive.

It thus deals only with the coinage, and in no way affects the general currency of the Colony, except by the operation of the restrictive enactments contained in the Ordinance. But these enactments have the effect of restricting the whole currency of the Colony, to the quantity of the gold coinage which may accidentally be in existence at any particular time, thereby leaving every other description of capital, even gold itself, if uncoined, without any representative of value, and if, at any time, a sudden demand for the exportation of gold coin should occur as a better means of remittance than any other article of commerce, the coinage might disappear altogether, and no currency be left for exchanging the various commodities of the country. 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.

Lord Grey, in speaking of economizing capital, or in other words, rendering it productive, confines the term exclusively to that portion of the capital of the Colony which consists of gold coinage, leaving out of view the more extensive application of the term "capital" as representing its ships, corn, merchandize, flocks, and industry in general. These equally form the capital of a country, and require means for their productive employment; his measure not only fails in supplying this want, but absolutely prevents the colonists from providing against it themselves—by forbidding them to create a representative of their value by which they may be exchanged.

The paper issues of the Bank, or present exclusive paper currency of the Colony, only represent so much gold coinage the product of previous industry created or introduced into the Colony by the colonists themselves, which it withdraws and invests. A large amount, probably equal to that withdrawn, remaining still in circulation side by side with the paper.

According to the Official Returns of last month, the issue of paper				
At Wellington	amounted to	...	...	£32,842
At Auckland	...	...	...	7,481
				£40,323
Represented by investments in the British funds—				
Wellington	...	...	...	£15,000
Auckland	...	...	...	1,000
Coinage in the Chest—Wellington				17,842
Auckland				6,481
				£40,323

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 it out. The whole transactions for the month of June, at this Branch, amounted to 6058*l.*, in which the public participated only to the extent of 355*l.*, while the dealings with the two establishments before mentioned were 5703*l.*

In Wellington the Bank seems always to have maintained a better reputation; its circulation there is nearly five times that of Auckland,—a difference so disproportioned to the requirements of the two places that it is only reconcilable by the presumption that some spirit of antagonism has prevailed in the latter place from which Wellington has been free.

In regard to management it appears that the interest upon the investments made in the British funds since the institution of the Bank, amounted, on the 5th July, 1853, to 545*l.* The interest accruing to 5th July, 1854, in consequence of increased investment, will amount in addition to about 420*l.*, in all 965*l.* The expenses of the Bank for the same period, not exactly ascertained, have been—

At Wellington	about	...	...	620 <i>l.</i>
Auckland	...	...	...	850
London	...	...	...	120
				1572

—exceeding the profits by 652*l.* There is, however, a sum of 5000*l.*, ready to be invested from Wellington, which will increase the investments to 21,000*l.*, and produce an annual interest of about 600*l.*, being more than sufficient to meet the annual expenses for the future.

A more serious loss has attended its operations, in consequence of the fall in the British funds of nearly 15 per cent., causing a diminution in its actual capital at the present time of about 2,400*l.*

As an experiment, therefore, of economising capital, the measure must be considered a failure, and the object of uniting the convenience of a paper currency with the steadiness and uniformity of a metallic coinage appears also to be unattainable unless some mode of investment for the surplus coinage withdrawn from circulation can be found, which shall at all times have an equal fixedness of value with the coinage itself. The English funds have proved unequal to this contingency, and no safer or apparently less fluctuating security could then, or perhaps can even now, be found.

The objections to which the present Bank of Issue is open are: 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 moderate expectations which Lord Grey had formed of it as an economic measure, have not been realized. Fourthly—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 created the coinage which its paper currency has displaced, nor does the latter possess the expansive character of a currency which should develop and bring into active 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.

After careful consideration your Committee have come to the resolution that it is not desirable to maintain the present Bank of Issue, nor can they recommend improvements as to the mode of investment or management which have suggested themselves in the course of investigation, because they are of opinion that the existence of any Government Bank issuing its own paper exclusively is injurious to free commercial enterprise.

They are not, however, inclined to recommend its immediate abolition which would cause too sudden a derangement of the monetary affairs of the Colony; it might be allowed gradually to lapse in the natural course of events, and although they believe that its existence is incompatible with such free Banking Institutions as the Colony requires, and that it would sink under a rivalry with such establishments, they think that in giving opportunity for their formation, arrangements might be made with any Banking Companies for retaining for a time as part of their assets the present paper issue, so that the affairs of the present Bank might eventually be wound up without any loss to the colony.

It is necessary to state in this Report that a minority of your committee (consisting of 4 out of 10) are of opinion that the Bank of Issue should be maintained, although they would readily adopt a better substitute if such can be found.

The question as to what change should be introduced into the Banking system of the colony has not been strictly referred to your Committee, nor is it one demanding an immediate solution; it is very desirable that the attention of the House, and public opinion also, should be directed to the subject during the recess.

In any change to be hereafter made three systems, now in operation, present themselves for consideration. 1st. The Joint Stock Banking System of England. 2nd. The application of the principle of the Bank of England of Issues specifically guaranteed. 3rd. The system of Joint Stock Banks prevailing in Scotland.

It may be further necessary to consider in what manner any of these systems may be most beneficially applied to the exigencies of any particular Province.

The following statement shews the comparative working of the two branches of the Bank of Issue at Auckland and Wellington from their commencement to the 30th June, 1854.

	Present Issues.	Total Expenses.	Total Profit	
Auckland	7481	850	105	Loss £745
Wellington	32842	620	860	Gain £240

The following shews the last year's working—

	Annual Expenses	Annual Profit.	
Auckland, about	201	30	Loss £171 per annum.
Wellington, about	200	390	Gain £190 do. do.
		420	

JAMES KELHAM,  
Chairman.

House of Representatives,  
Auckland, 28th July, 1854.

