

SIGNED ARTICLES

In introducing a feature of this character, the promoters of FAIR PLAY desire to show their genuineness of purpose to the public. The columns under this heading are thrown open to the public, and although the Editor may not in all cases agree with the writer, an opportunity is hereby offered for a fair expression of opinion from an outer source, even though it be in direct contradiction to the policy pursued by the journal.

BANKS, BUSINESS, AND SAFETY.

BY T. KENNEDY MACDONALD.

The terrible collapse which has recently fallen upon the business communities of New South Wales and Victoria, contains object lessons of the greatest value to the people of New Zealand. When the circulation of money is abundant we see great commercial activity, industries flourishing, a rise in prices, and what is popularly known as "good times." The merchant finds no difficulty in obtaining an overdraft from his banker or the money discount of his customer's promissory notes. Each year sees his business growing larger and his demands for bank capital growing in equal proportion. It never occurs to him upon what a bed of sand the whole financial fabric rests. Suddenly the money market in London becomes unsettled. It may be the collapse of a great house like Overend, Gurney, and Co., or the Barings, produces a wholesale panic, or the contemplated change of financial policy in connection with the silver question, as in America, suddenly frightens the banking fraternity. The latter desire to strengthen themselves, the cable is set to work, and the whole civilized world is at once acquainted with the fact that bad times are coming.

The colonial banker in his turn puts on the screw; but a month before he was all smiles. He did not wish to have any reserve lying idle. The whole capital of the Bank was to be freely employed; suave and polite he urged his customer to renewed exertion in order to more fully employ the Bank capital. The scene is changed. The overdraft must be paid up. The discount account must be reduced. No new accounts requiring the employment of the bank capital will be opened.

The banker is not so much to blame. His own safety and that of his particular joint stock institution is the first consideration. If necessary he must break a thousand promises, no matter how much misery it may cause, to secure that end. That is the banker's gospel. He is merely the representative of an abominably vicious system of finance. That system believes in securing the largest amount possible of other people's money on deposit at the lowest possible rates of interest, lending it out to others at the highest rates, and trusting to luck to pull through if the deposits are called for.

And how wonderfully luck helps the banker sometimes. Look at the run which set in on the Auckland Savings Bank the other day. Was it going to stop at the Auckland Savings Bank or was it going to extend to the other Banks? The whole of the banks together had only some 2½ millions of coined gold and silver to pay nearly sixteen millions of deposits and notes, of which some six millions were payable at call. But Providence was merciful, Parliament was in session, and the Bank-note Issue Act was rushed through in half an hour and *hey presto* every one pound bank-note was at once as good as a coined golden sovereign.

But what about the unfortunate trader? No accommodating Colonial Treasurer or Parliament steps in to guarantee his little bits of paper. If his customers can't pay the bill they have given for goods purchased in good faith, unless the trader has outside resources from which he can obtain new capital, heaven help him. The very accommodation pressed upon him in the time of the banks plethora of cash, and through which he enlarged his business, has fixed his ruin. Every merchant contracts large liabilities in the purchase of goods. He can only meet those liabilities by the discount of the bills of those to whom he has sold the goods. The moment the banks fail to perform this commercial operation for him disaster ensues.

To-day, in New Zealand, the Banks have failed in their duty to the mercantile public. Granted many exceptional advantages, by special Acts of Parliament, they have ceased to perform efficiently the

duty of dealing properly with the moneys of the community. The general public have advanced to them some 4½ millions without interest, and about 10 millions at interest, and have taken over a million of their notes as equal to coined gold. As a return for this measure of confidence they have lent to the mercantile community some 2½ millions in the discount of promissory notes. In ten years they have reduced the discount accommodation several millions, each year seeing a steady decrease. The effect of this policy has been the contraction of all business operations and the creation of a feeling of depression amongst traders of all classes, which has been most injurious to the best interests of the country.

When the mercantile men of the Colony recognise the value of cash payments and the folly of building up a large business on promises of Bank assistance, which may be withdrawn in an instant; when the general public take a lesson from history, remembering that the citizens of Venice, the greatest trading community in ancient times, never trusted a banker with their moneys but spread them abroad in many ventures by land and sea, they will cease to rely upon financial institutions as depositories for their wealth. They will look for investments amongst their friends and fellow-citizens; they will settle upon the lands of the Colony; they will assist to create industries which in turn will create others and, the one resting upon the other, help to build up a happy and prosperous community whose watchwords will be Faith, Hope, and Progress.

T. Kennedy Macdonald

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